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**China tries within the current international
framework dominated by the US to gain
more power in the IMF**

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Abstract

This thesis analyses whether China tries to gain more power in the IMF staying within the current international U.S.-dominated system. The analysis focuses on China's behavior in the IMF during the reform process of the last decade. The thesis examines the ways in which China can gain more power staying in the IMF. However, current power structures make it difficult to implement changes and China might therefore use political groups such as the BRICS and their New Development Bank to exert pressure. But the intention of the BRICS is not to overthrow the system but to reform it. Using official statements and speeches delivered by Chinese, U.S. or IMF staff in the IMF as well as articles published in newspapers Chinese claims and US reactions were analyzed. The results suggest that China stays within the international system and does not try to overthrow it. Nevertheless, pressure is created through the establishment of the New Development Bank (NDB) and the Asian Infrastructure and Investment Bank (AIIB). The intention of this thesis is to give a current account of Chinese behavior in the international community, supporting the understanding of underlying dynamics.

Abstrakt

Tato diplomová práce se zabývá otázkou, zda se Čína nepokouší získat více moci v MMF, přestože MMF je dominován Spojenými státy. Analýza je zaměřena na počínání Číny v MMF během reformního procesu posledních deseti let. Autorka zkoumá jakým způsobem může Čína získat více vlivu. Stávající struktura komplikuje snahu dosáhnout změny. Čína tudíž hodlá použít tzv. BRICS a jejich New Development Bank, aby prosadila změny. BRICS nemají zájem svrhnout stávající systém, nýbrž ho reformovat. Prostřednictvím oficiálních prohlášení, proslovů čínských, amerických a přímo reprezentantů MMF na půdě MMF i článků v novinách se autorka zaměřuje jak na čínská konstatování, tak na americké reakce. Výsledky naznačují, že Čína si přeje zůstat v rámci mezinárodního systému, nikoliv ho zničit. Nicméně existují tlaky způsobené New Development Bank a Asian Infrastructure and Investment Bank. Záměr této práce je poskytnout aktuální rozbor čínského počínání v mezinárodním společenství pro pochopení dynamiky celého problému.

Klíčová slova

MMF, Čína, reformy, Brics, New Development Bank, Asian Infrastructure and Investment Bank, mezinárodní systém, výzva

Keywords

IMF, China, Reforms, BRICS, New Development Bank, Asian Infrastructure and Investment Bank, international system, challenge

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Declaration of Authorship

1. The author hereby declares that he compiled this thesis independently, using only the listed resources and literature.
2. The author hereby declares that all the sources and literature used have been properly cited.
3. The author hereby declares that the thesis has not been used to obtain a different or the same degree.

Prague 21.05.2015

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Justification of the Topic Selection

US-Chinese relations are the primary determinant of today's and probably future global politics and economics. China's rise has challenged the US globally. In combination with the financial crisis the topic gained further significance. Most scholars have yet looked at China's interactions with different institutions without looking at the way China itself influenced those institutions especially after the financial crisis. I will thus analyze how China tries to exert influence on the IMF, an international institution. The goal is to come to a conclusion how China behaves within the international community today. It might already challenge the system set by the US and challenge the status quo.

Main Aim of Thesis

In my thesis I will analyse China's behavior in the IMF and might come to the conclusion that China tries to change the system today. The thesis aims at analyzing China's goals in the IMF, the way it pursued those and if China by doing so stays within the current framework set by the US. General conclusions might be drawn too. In my analysis I will focus on the dynamics and how China tries to transform economic power into political power in the IMF. A special focus will be on the BRICS to be able to find out how China uses the BRICS to pursue its goals. The overall goal is to be able to put current developments such as the New Development Bank and its meaning into context.

Main Characteristics of the Topic

China's rise has caused both fear and hopes as to how the country would integrate itself into the international community. Its economic growth is impressive. China thus became a member of several important international organizations such as the IMF. China needs those international organizations in order to act and grow internationally. But China's growth creates fear that it might try to overthrow the current US dominated system. In recent years developing countries try to get more votes in international organizations and the IMF. The BRICS push for these rights as a group after the financial crisis of 2008. 2008 marked a turning point and led to an even stronger China relative to US power. The US however, generally controls or dominates international institutions such as the IMF. China tried to transform its economic power into political power in international institutions especially after 2008. The question is to what extent if at all they challenge the US-dominated system.

Planned Structure of Thesis

The first pages will be devoted to the kind of sources I used. A detailed explanation is given as to the quality of the sources used and the accuracy of their conclusions for my work. Then in the background part (30-35 pages) I will first look at China's history. I am analysing whether China is a challenger today but important to know is the character of the country. If China has always been challenging systems and the international community it certainly would be characteristic for them to challenge the system today as well. I will therefore look at different leaders and compare their approaches to the international community and their world views.

The IMF has a long and important history with changes in its operations and its work. The quota based voting system is an essential part of the institution. It is because of the quota based voting system I chose the IMF for my analysis. Changes within the quota based system are traceable and result in measurable changes. The quota is the reason for complaint by China today. Usually the quota should reflect the economic weight of a country. But China and the BRICS are dissatisfied because their quota is too small and does not reflect their economic strength. It is therefore important to know what privileges the US enjoys and how decisions are made. China and the BRICS tried to gain more power for several years now. To what extent they might be capable to interfere within the framework of the IMF is thus crucial for my analysis.

A crucial year for China and the IMF or China within the IMF is 2008. The power shift in 2008 cannot be overlooked because it changed the relationship between the IMF and China. The consequences the crisis should have for global governance at the IMF and an account of China's relative economic position around/after 2008 is given. Since then China had a much greater claim and better bargaining position for claiming more power in the IMF. The financial crisis in 2008 further changed economic might in the international scene. It is therefore important in how far China can get more say in the IMF. A comparison before and after 2008 is made. Important highlights of the relationship during their long history are taken into account.

The BRICS are analyzed on the ground of whether or not their initial aim was to change the system and what their goals are. The BRICS, an informal institution established after the financial crisis, might serve Chinese needs and might create a new power bloc

within the current system. Finally the Development Bank by the BRICS is introduced and its power is characterized.

The methodology of the analysis will first be explained and consists of three parts (before 2008, before 2010 and after 2010-approx. 2015). I will compare China's achievements alone and by the BRICS together. One aspect is also to look at China's aims and the BRICS' aims to see in how far China might use the BRICS for its own purposes. Chinese behavior in the IMF and decisions made by the IMF are analyzed to know how China pursued its goals and what those goals were. Therefore I will use statements and speeches by different politicians and look at e.g. newspapers, journals or the IMF webpage. Different politicians might characterize Chinese claims as legitimate or not. The analysis should provide me with the dynamics of recent years so that today's situation can be judged accordingly.

The conclusion should be to say what intentions China had by establishing the New Development Bank together with the BRICS. In this context it is important to see what meaning the newly established New Development Bank has which might or might not challenge the IMF indirectly. The New Development Bank is usually said to challenge the World Bank but since the World Bank is part of the Western system implications for the IMF are surely given. It might be the first step to overthrow the system or to pressure the US and Europe to finally give China more power within the IMF.

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List of abbreviations

AIIB	Asian Infrastructure and Investment Bank
ASEAN	Association of Southeast Asian Nations
BBC	British Broadcasting Corporation
BNDES	Banco Nacional de Desenvolvimento Econômico e Social (Brazilian Development Bank)
BRIC	Brazil, Russia, India and China
BRICS	Brazil, Russia, India, China and South Africa
CAF	Development Bank of Latin America
CCP	Chinese Communist Party
CMI	Chiang Mai Initiative
CRA	Contingent Reserve Arrangements
D.C.	District of Colombia
FY	Fiscal Year
GDP	Gross Domestic Product
G-20	Group of Twenty
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee
NAB	New Arrangements to Borrow
NATO	North Atlantic Treaty Organization
NDB	New Development Bank
NY	New York
PBC	People's Bank of China
PRC	People's Republic of China
SDR	Special Drawing Rights
UK	United Kingdom
UN	United Nations
US	United States
WTO	World Trade Organization

1.1 Introduction into the Topic

China's rise and its integration into the international community have evoked concerns about its intentions especially during the last decade. The global economic crisis of 2008 brought a new challenge to the US dominated global political economy which was based on the Washington and Post-Washington Consensus.¹ China's economic success relative to the US leads to greater powers thereby achieving further bargaining power in international institutions such as the IMF. This created fear and distrust as to whether China would try to challenge the international order even though it is well-integrated into the world community. From its admission to UN in 1971, China was gradually integrated into the international system and participated in global governance by joining other nations shaping international institutions.² In the early 1980s, China added a role in the IMF. China's integration into the international community has already led to more political power and a trend to multipolarity. As Chinese economic power is not properly reflected in political power in the IMF, a legitimacy problem was created for the IMF. Lacking legitimacy especially apparent in the last decade, the IMF tries to implement substantial governance reforms. Reforms were agreed on in 2006, 2008 and 2010 respectively. The reforms of 2010 are, however, still ineffective because the US Congress has not ratified them. In addition, in recent years, perceptions of systematic unfairness increasingly undermined the IMF's legitimacy.³

In combination with the legitimacy problem of the IMF, China may intend to challenge the IMF and the underlying international system. International institutions, however, protect their interests from new actors via conservative procedures.⁴ Those operating procedures are quite visible in the IMF where, in essence, the US enjoys veto power. It is necessary to separate China's dissatisfaction with international norms and institutions based on conflicts of interest with the US as to whether China is a status quo

¹ Sadik Ünay, "Reality or Mirage?: BRICS and the Making of Multipolarity in the Global Political Economy", *Insight Turkey Quarterly* Vol. 15, No. 3, (Summer 2013), p. 78,

<http://web.a.ebscohost.com/ehost/pdfviewer/pdfviewer?sid=365f97df-d428-49e8-9cda-f826a7fdc974%40sessionmgr4005&vid=10&hid=4112> (accessed 23.03.2015).

² Hongsong Liu "China's Proposing Behavior in Global Governance: the cases of the WTO Doha Round negotiation and G-20 process", *Revista Brasileira Política Internacional* Vol. 57, (Special Edition 2014), pp.121,122, <http://web.a.ebscohost.com/ehost/pdfviewer/pdfviewer?sid=365f97df-d428-49e8-9cda-f826a7fdc974%40sessionmgr4005&vid=13&hid=4112> (accessed 23.03.2015).

³ David P. Rapkin and Jonathan R. Strand "Reforming the IMF's Weighted Voting System", *Journal Compilation World Economy* Vol.29, No.3 March 2006 p.305,

<http://web.a.ebscohost.com/ehost/pdfviewer/pdfviewer?sid=365f97df-d428-49e8-9cda-f826a7fdc974%40sessionmgr4005&vid=16&hid=4112> (accessed 28.03.2015).

⁴ Alastair Iain Johnston "Is China a status quo power?", *International Security Quarterly* Vol.27, No.4 (Spring 2003) p.24 <http://web.a.ebscohost.com/ehost/pdfviewer/pdfviewer?sid=365f97df-d428-49e8-9cda-f826a7fdc974%40sessionmgr4005&vid=19&hid=4112> (accessed 28.03.2015).

power or a challenger.⁵ In order to reflect on this distinction, US opinion is included in the analysis. China, even though it hasn't claimed power explicitly might still aim for it which is also why US opinion has to be taken into account. Some scholars are convinced of the self-fulfilling prophecy of the China threat theory.⁶

Against this background, it is important to note that theories of international relations assume that rising powers challenge the international order.⁷ The question remains whether those theories apply here and, at which point in time, such a challenge would begin. Other studies suggest the actual system itself is the decisive factor when challenges occur due to a hegemonic existing order.⁸ Actual war seems unlikely but economic and the political overthrow, implied by war is the reason for including this theory. Making matters more complicated is the fact that the definition of status-quo is vague.⁹ The question of status-quo is therefore addressed in the research question.

1.2 Research Question and Hypothesis

The research question addresses the challenge China poses to the US dominated IMF. Is it true that China tries within the international framework dominated by the US to gain more power within the IMF? My hypothesis is that China tries to gain more power within the existing global financial system.

1.3 Current State of Research and Evaluation of Sources

Since the BRICS appeared on the scene of the world stage questions around China challenging the system had to be asked differently. Questions had to be asked in combination with the Chinese and BRICS' roles in the international community and their intentions. Therefore the research field as described is new. However, this research field so far has been approached in a similar way by most scholars. Especially the BRICS were mostly evaluated based on their willingness and strength to overthrow the system or the role they might play in it in general. Jyrki Käkönen asks "BRICS AS A

⁵ Ibid. p.25.

⁶ Ibid p.55.

⁷ Jyrki Käkönen."BRICS as a new power in international relations?", *Geopolitics, History and International Relations*, Vol.6 No.2, (2014) p.86 <http://web.a.ebscohost.com/ehost/pdfviewer/pdfviewer?sid=365f97df-d428-49e8-9cda-f826a7fdc974%40sessionmgr4005&vid=22&hid=4112>, (accessed 28.03.2015).

⁸ Michael J. Green and Daniel M. Kliman "China's Hard Power and the Potential for Conflict in Asia", *SERI Quarterly*, Vol.4, No.2 (April 2011), p.34, http://www.seriworld.org/16/qt_Section_list.html?mncd=0302&dep=2&pub=20110212&year=2011&pubseq=177 (accessed 03.05.2015).

⁹ Johnston, Ibid. p.8.

NEW POWER IN INTERNATIONAL RELATIONS?”, Michael A. Glosny “China and the BRICs: A Real (but Limited) Partnership in a Unipolar World” or Zhenbo Hou “The BRICS and Global Governance Reform: Can the BRICS provide leadership?”. The questions asked by Chinese or Western scholars were similar as well. Another question often raised was China’s ability to establish a multilateral system. In Mingjiang Li’s “Rising from within: China’s search for a multilateral world and its implications for US-Chinese Relations” or Robert H. Wade’s: *Emerging World Order? From Multipolarity to Multilateralism in the G20, the World Bank and the IMF*” the authors consider China’s behavior in international organizations and try to claim that we have or haven’t yet reached a state of multilateralism. The problem is that the focus is not on one organization specifically. Neither do these authors give an account of the last years and China’s behavior in detail. Few papers deal with China and the BRICS in a specific organization. Therefore this thesis seeks to deal with a topic which has not yet been touched.

In doing so, scholarly reviewed articles published in international academic journals ensure the quality and accuracy of the information. Most information used in books had been previously published as primary sources in academic journals. One of the few books cited was published in September 2014 by Palgrave Macmillan and contains a detailed analysis of the BRICS by Rich Marino. The book is new and Palgrave Macmillan known for its excellent publications. In order to provide for a sufficient variety of knowledgeable views on the topic, articles cited were published by US or Chinese authors whenever possible.

However, citing Brazilian and Turkish journals was inevitable as the research field is contemporary. Both are developing countries. In addition, Brazil is a member of the BRICS. Turkey on the other hand benefitted from Chinese insistence on reforms in the IMF. It was among the countries to be chosen for the first ad hoc Quota increase in 2006. Therefore scholars in both countries might have a special research interest because their countries are affected to a great extent by China.

All the papers used were peer reviewed. Approaching this topic from a Chinese perspective is essential to a great extent although the quality of the journals might be less. The arguments presented by the authors increased the quality of this work.

Published during the time frame, 2005-2015, the sources e.g. speeches, newspapers, articles used were taken from renowned magazines. The official webpage of the IMF is also an important source. Attempting to use primary sources whenever possible the

intention was to elevate the quality of this thesis. Most of the sources used were published after 2008. To highlight China's behavior, goals and relations with the outside world in the 1950s publications cited include academic papers written shortly afterwards as well as recent ones. The intent is to provide a concise picture, less biased by the Cold War.

Important for the analysis overall was the analysis by Alastair Iain Johnston from Harvard University who accounted for China's behavior with the outside world, by asking the question whether or not China is a status-quo power in 2003. His ideas are useful when referring to the earlier era.

Michael Oksenberg was a member of the National Security Council under President Jimmy Carter and involved in the establishment of full diplomatic relations between the US and China. He discusses China's rise in the context of its participation in international organizations. Secondary sources are essential to support this analysis. A scholarly article which interviewed IMF staff about the decision making process in 2010 provides essential information.

Interviews with Joseph Stiglitz, awarded the Nobel Prize in economics in 2001, evaluate the establishment of the Development Bank. He had served as the vice president and chief economist of the World Bank. In addition he has great knowledge of the IMF. The interview referred to was cited several times in the news media. Joseph Stiglitz is especially respected for his critique on operations and governance of the IMF and The World Bank.

Speeches of President Obama and official publications by U.S. Congress evaluate the legitimacy of Chinese claims. US' intentions and behavior are included as well as a close look at the most recent development when evaluating the BRICS'. The New Development Bank, based on the latest publications, captures the most recent developments and China's situation in the international community.

1.4 Theoretical Background of the Thesis Question

The theoretical background of this thesis is therefore political economy. The research field of Political Economy can be divided into three parts, Economic Liberalism, Economic Nationalism and Economic Structuralism. Economic Liberalism neo-liberal ideas were promoted by the IMF in the 1980s and 1990s. Classical liberalism traces back to Adam Smith. Economic Liberalism which stands in contrast to Economic Nationalism promotes liberal economic policies such as free trade. Economic Nationalists like Alexander Hamilton claimed that liberal policies only served the industrialized states and not developing countries.¹⁰ Economic Nationalism deals with the economic competition of states and thus provides an explicitly political analysis. One part of the mercantilist writing is the zero-sum game which means that when one party wins another party loses. Even though the applicability is limited, concerning the IMF and the Quota based system this theory is useful. When China gains more power, has a higher share of Quota another country would have to give a part of his share. Economic Structuralism highlights the need to take into account structural features in an economic analysis and includes institutional factors when analyzing economic problems. The actors and their relations are taken into account in the analysis.

The approach therefore combines these elements and the methodology is similar to the methodology of research already conducted. Regarding China as a state actor as well as in a group of the BRICS the increasing importance of globalization is taken into account. Two factors globalization takes into account is the growing inequality in e.g. distribution of wealth and the loss of national autonomy due to international organizations. This fact makes the claims by China on reforms of the IMF all the more important and need to be looked at closely. Economic Nationalism includes the political aspect of my analysis which in this case is a zero-sum game. Therefore China and the US have to be looked at more closely because what China gains can be said is almost equivalent to what the US or at least the West loses. Economic Structuralism has to be taken into account in the IMF and the way in which the power is divided or reforms are passed. Therefore in this work the following methodology was used.

¹⁰R. Falkner „International Political Economy“, 2011, p.22,
http://www.londoninternational.ac.uk/sites/default/files/programme_resources/lse/lse_pdf/subject_guides/ir3026_ch1-3.pdf, (accessed 11.05.2015).

1.5 Methodology

The analysis considers a time frame of ten years, 2005-2015. The last decade in the IMF was characterized by important governance reforms and influenced China's current behavior to a great extent. Therefore, the analysis looks at IMF reforms in detail and the dynamics underlying them. Against these reforms Chinese and since 2009 the BRICS claims are analyzed. The legitimacy of those claims is further assured by looking at US and IMF statements. In particular articles, journals and speeches, are analyzed seeking to know what actual intentions are and to compare them to actions and outcomes. China might pursue its claims with the help of the BRICS. As already mentioned, the BRICS were usually treated as individual countries rather than as a group, but the group is included in this analysis. The BRICS' reports are analyzed. The BRICS are important to consider because they represent a new power group in the economic and political framework which is still dominated by the US. They use their bargaining power as a group to advance their common aims. In order to find suitable material, publications of the years specified by China, the BRICS, the US Congress and the IMF are analyzed. Mostly primary sources are published online; including articles from renowned US or international magazines and the media e.g. the Washington Post. These include speeches or comments by US or Chinese officials in the IMF.

1.6 The Structure of the Thesis

The thesis is structured chronologically first dealing with Chinese history and the history of governance of the IMF. For a long time China had lived in isolation, ignoring the outside world. China regarded itself as superior to others and was highly developed. This might be the reason for relations not on a level playing field with neighboring states or other countries. Nevertheless, the focus of China's history is on the era of Mao and Deng Xiaoping. Mao was a revolutionary challenger to the international system whereas the role of Deng Xiaoping was very different. An ambivalent picture of China emerges depending on the leader and time. It is thus necessary to look closely at the specific time to be able to make judgments about China's behavior. In order to be able to reach appropriate judgments about the IMF, its history has to be taken into account as well. IMF history is marked by few changes in governance except in the General Quota

Reviews. Thus, there is no history of reforms and experience of the IMF. The power structure is a constant and defines the ways in which China gained more power in the IMF. The power structure of the IMF should show that China is able to gain more power by staying within the international system. Increasing the Quota is the only significant means to gain more power in the IMF because of the importance the Quota has for a country's relationship to the IMF.

The subsequent chapter defines ways in which China has acted in the IMF and its process of integrating into the international community which impacts China's behavior in the IMF today. China integrated well into the international community and the IMF. The history of China and the IMF is a history of cooperation. On the one hand, China tries to avoid IMF interference in its domestic affairs. The IMF, on the other hand, has not enough leverage to make its members or China act in certain ways. This may have implications for today.

BRICS is a very recent phenomenon which has to be taken into account when dealing with current Chinese intentions, hence the New Development Bank is to be introduced shortly. The BRICS recently entered the world stage. The new economic and political group tries to gain decision-making power in international institutions as a group. Despite their differences, they work together, usually on non-binding, intergovernmental bases. China, the most influential member, enjoys the most power. The New Development Bank is presented as the first real project undertaken by the BRICS. It complements efforts to address the shortcomings in the international financial system but to date is too small to have a real impact.

Speeches, newspapers, and scholarly works from the last ten years, they reveal China's push for reforms to remove deficiencies of the international system from inside.

2.1 A Short Introduction into China's History: Is China a Status Quo Power or a Challenger?

China has not always lived inside the system. Therefore it is important to look at its history and the way China behaved to be able to understand and evaluate its behavior today. Examining China's history presents an ever-changing outlook and relationships with the outside world. For a long period of time, specifically until the opium trade and later the opium wars from 1839-1842 and from 1856-1860 when the country had to open itself to the outside world, China lived in isolation ignoring the outside world. This is basically due to the world view termed "Middle Kingdom" which says that China is the centre of the world, and then there are tributary states and barbarians. Tributary states are the neighboring countries which need to give tributes to China. Barbarians are everyone else. While Confucianism was the philosophy under which China was ruled, it never defined China's relationship with the outside world. China considered itself self-sufficient and didn't rely on any foreign country which may have made it feel superior. The voyages of Zheng He are unique during the Ming Dynasty. To this day scholars can only guess about their purpose.¹¹ China thus had few relations with the outside world and was not very interested in discovering it. Confucianism, a philosophical system, determined relationships e.g. father vs. son, to ensure harmony and determined China's outlook on the world.

China was a highly developed country with many inventions like gun powder which might have contributed to the feeling of superiority. Being highly developed itself China might have seen no benefits in relations with foreigners. In 1796 the Macartney mission, the first diplomatic contact between GB and China, failed because the Emperor regarded the tributes as toys.¹² Furthermore regarding itself as superior China didn't have relations on a level playing field. It thus did not challenge the system but it also didn't participate in it. On the other hand the impact of China's treatment by foreigners in the following century of humiliation (1839-1949) should not be underestimated. The century of humiliation is the period from the first opium war onwards. China was other-directed and forced to open ports and trade. In addition, it was the barbarians who

¹¹ Robert Finlay "The Voyages of Zheng He: Ideology, State Power and Maritime Trade in Ming China", *The Historical Society and Wiley Periodicals, Inc.*, (September 2008) pp.329, 330, <http://web.a.ebscohost.com/ehost/pdfviewer/pdfviewer?sid=365f97df-d428-49e8-9cda-f826a7fdc974%40sessionmgr4005&vid=26&hid=4112> (accessed 11.05.2015).

¹² John L. Cranmer-Byng and Trevor H. Levere "A Case Study in Cultural Collision: Scientific Apparatus in the Macartney Embassy to China 1793", *Annals of Science* (September 1981), p.503, <http://web.a.ebscohost.com/ehost/pdfviewer/pdfviewer?sid=365f97df-d428-49e8-9cda-f826a7fdc974%40sessionmgr4005&vid=29&hid=4112> (accessed 11.05.2015).

invaded China and forced it to establish ports and start trade relations with the west.¹³ This fact certainly added to the feeling of humiliation. Suspicion on the side of the Chinese as to the intentions of foreigners in their country might have been the result of that time. After these experiences China may try everything it can to prevent foreign interference in domestic affairs.

But China also presented itself as a challenger to international order. During Mao's rule, the PRC can be primarily characterized as a revolutionary challenger of the international system, one which considered force to be a viable tool to achieve this aim.¹⁴ Mao felt obligated to the idea of fundamental change of the international order, and the world revolution, for his entire life.¹⁵ Even though he might have had a world revolution always in mind, his foreign policy changed over time. However, the use of force in the 1950s especially might already signal a certain eagerness for change by Mao. Mao wanted to implement communism in China and was looking forward to a world revolution led by China.¹⁶ This aforementioned attitude shows that China challenged the world system but also claimed a central position for itself. China wanted to liberate the world from the imperialistic West, fought the US e.g. in Korea, and attacked the offshore islands of Taiwan.¹⁷ China thus used force outside its territory and acted according to revolutionary principles. Although the US had crossed the 38th parallel, bringing China into the war, China defended communism and "the brethren" in the North. Nevertheless, despite revolutionary ideals, Mao's China took integrationist steps abroad to be able to concentrate on domestic concerns.¹⁸ These priorities show that domestic outcomes are the primary concern as, despite the fact that the party is authoritarian, it needs legitimacy. That means under Mao already China's foreign policy was linked to domestic politics. The years 1955 and 1956 marked a turning point in

¹³ Alison Adcock Kaufman "The 'Century of Humiliation,' Then and Now: Chinese Perceptions of the International Order", *Pacific Focus*, Vol.25, No.1 (April 2010) p.5, <http://web.a.ebscohost.com/ehost/pdfviewer/pdfviewer?sid=365f97df-d428-49e8-9cda-f826a7fdc974%40sessionmgr4005&vid=36&hid=4112> (accessed 11.03.2015).

¹⁴ Xiaoting Li "The Taming of the Red Dragon: The Militarized Worldview and China's use of Force, 1949-2001", *Foreign Policy Analysis Quarterly*, Vol.9, No.4 (October 2013), p.387, <http://web.a.ebscohost.com/ehost/pdfviewer/pdfviewer?sid=365f97df-d428-49e8-9cda-f826a7fdc974%40sessionmgr4005&vid=39&hid=4112> (accessed 01.04.2015).

¹⁵ Kuisong Yang and Yafeng Xia "Vacillating between Revolution and Détente: Mao's changing Psyche and Policy toward the United States, 1969-1976", *The Journal of the Society For Historians of American Foreign Relations: Diplomatic History* Vol.34 No.2 five times a year (April 2010) p.397, <http://web.a.ebscohost.com/ehost/pdfviewer/pdfviewer?sid=365f97df-d428-49e8-9cda-f826a7fdc974%40sessionmgr4005&vid=42&hid=4112> (accessed 01.04.2015).

¹⁶ Li, Ibid. pp.341-344.

¹⁷ Li, Ibid. p.389.

¹⁸ Ibid. p.393.

China's policy. Peaceful co-existence¹⁹ became the principle under which relations with the US should improve; World peace was promoted rather than a world revolution.²⁰ Some critics suggest a different interpretation. They say that China wanted to behave normal in a way to create a united front of Asian countries against the US.²¹ Again, real intentions are difficult to know. But China focused on the expansion of Peaceful Coexistence and opposed hegemony. Peaceful Coexistence was expanded by the "Three Worlds Theory" which focused on principles of national unity and self-determination of the backward countries, opposed imperialism and hegemony, and was intended as a means for China to gain international legitimacy.²² It seems that Mao, while promoting a world revolution, wasn't concerned about foreign assessment of him, his Government, by the 1950s, he wanted to be recognized. China needed to find its place in the international community. The example shows the contradictions in Chinese foreign policy and how difficult it can be to know what goals China pursues.

Disputes with Moscow in the beginning of 1960 led to a break between the two communist camps because Beijing sought to be the leader of world communism.²³ China's attitude changed depending on its allies and treatment by foreign powers, developing radical and violent foreign relations approaches. In the mid-1960s China even prepared for a nuclear war.²⁴ These preparations for war made 1960 the most dangerous time of Chinese relations with the outside world. Altered within a few weeks or months, Chinese behavior outside the international order changed quickly during Mao's rule. But even after joining the UN in 1971 and Nixon's visit to China in 1972, Mao didn't trust the outside world and the US in particular.²⁵ The visit however gave China new recognition and shows that integration into the international community alone is insufficient to create trust in the international system. The system needs to prove its legitimacy. But Mao's interest may only have been the accumulation of power.

¹⁹ The five Principles of Peaceful Coexistence adopted by Zhou Enlai in 1954 are: 1) mutual respect for each other's territorial integrity and sovereignty; 2) non-aggression; 3) non-interference in each other's internal affairs; 4) equality and mutual benefit and 5) Peaceful Coexistence

²⁰ Li, Ibid. p.394.

²¹ Shu Guang Zhang "Constructing 'Peaceful Coexistence': China's Diplomacy toward the Geneva and Bandung Conferences, 1954-55", *Cold War History Quarterly*, Vol.7, No.4 (November 2007), p.509, <http://web.a.ebscohost.com/ehost/pdfviewer/pdfviewer?sid=365f97df-d428-49e8-9cda-f826a7fdc974%40sessionmgr4005&vid=45&hid=4112> (accessed 11.05.2015).

²² Jiang An "Mao Zedong's 'Three Worlds' Theory: Political Considerations and Value for the Times", *Social Sciences in China Quarterly*, Vol.34, No.1, (February 2013), pp. 55, 48,49, <http://web.a.ebscohost.com/ehost/pdfviewer/pdfviewer?sid=365f97df-d428-49e8-9cda-f826a7fdc974%40sessionmgr4005&vid=48&hid=4112> (accessed 10.05.2015).

²³ Li, Xiaoting. "The Taming of the Red Dragon: The Militarized Worldview and China's use of Force, 1949-2001", *Foreign Policy Analysis* Vol.9 (2013), p.394; Michael M. Sheng "Mao and China's relations with the Superpowers in the 1950s: A New Look at the Taiwan Strait Crisis and the Sino-Soviet Split", *Modern China* Vol.34, No.4, (October 2008), p.477, http://www.jstor.org/stable/27746900?seq=9#page_scan_tab_contents (accessed 12.05.2015).

²⁴ Yang and Xia, Ibid. p.399.

²⁵ Li, Ibid. p.395.

Deng Xiaoping embraced a very different foreign policy. China adopted a Lockean, non-militarized worldview and was integrated further into the international community.²⁶ China joined the WTO in 2001. In order to integrate into the international community China had to accept status quo standards, that is international norms. Until 1999, China had proposed few new rules in international organizations and conformed to international norms in part because it benefitted from them.²⁷ Joining the WTO showed that China had adopted the principal of free trade generally shared by the international community.²⁸ Chinese gradual integration into the international community required about 50 years before becoming a member of all important international organizations.

Mao's successor had a very different agenda. He was different in character, too. Deng Xiaoping opened China to the outside world and was optimistic about the future development of China within the system. He regarded China's involvement in the international community as a chance for development.²⁹ This opinion reflects a belief of mutual dependence between China and other states. This dependence, especially on the US, increased after the Cold War ended.³⁰ But even after the Tiananmen crisis and the collapse of the Soviet Union, he did not regard the Chinese situation as bad.³¹ "Shelving disagreement and joint development" was Deng Xiaoping's motto which according to some scholars had a huge impact on Chinese foreign policies for several years.³² Deng used the five principals of peaceful coexistence in the 1980s and especially after the Tiananmen crisis.³³ Thus he advocated participation within the current international system and was opposed to changing it or to living in isolation. Chinese participation within the international community became furthermore indispensable due to its economic success.

In the 1990s Chinese leaders realized that their legitimacy depends on economic growth which in turn is guaranteed by the integration into the international community.³⁴ Or as the former Chinese Foreign Minister from 1988-1998 Qian Qichen

²⁶ Ibid. p.388.

²⁷ Johnston, Ibid. p.23.

²⁸ Ibid. p.15.

²⁹ Li, Ibid. pp.395, 396.

³⁰ Johnston, Ibid. pp.45,46.

³¹ Deng Xiaoping "Deng Xiaoping wenxuan (Selected Works of Deng Xiaoping)", Vol.3 Beijing (1993) Renmin Chubanshe, p.354 in Li, Xiaoting, "The Taming of the Red Dragon: The Militarized Worldview and China's use of Force, 1949-2001", Foreign Policy Analysis Vol.9 (2013), p.396

³² Li, Ibid. p.396.

³³ Michael Yahuda "Deng Xiaoping: The Statesman", *The China Quarterly*, No.135, (September 1993), p.556, http://www.jstor.org/stable/654102?seq=1#page_scan_tab_contents (accessed 01.04.2015).

³⁴ Johnston, Ibid. pp.16,17.

put it “foreign policy is the extension of China’s domestic politics”.³⁵ Foreign politics thus became of paramount importance for economic success and party survival. Tensions between China and the US increased in the 1990s. Presenting China as a challenger to the international system not complying with human rights, international norms, the Tiananmen crisis and the 1990s marked the beginning of debates in the US about whether or not China was a status quo power or a revisionist state.³⁶ The reason for these debates might be the massacre and that China considers human rights as US interference with its domestic affairs. The massacre furthermore led to a decline in US-Chinese relations. In the 1990s Chinese leaders didn’t trust the US government which pursued a “soft containment strategy” on China.³⁷

Important to consider is that trade modified China’s behavior towards other countries. Like other aspects such as territorial disputes the amount of trade that flows between China and other countries, can have an impact on its behavior especially when threatened by instability.³⁸ It is furthermore important to understand how a country regards its future. China doesn’t have a lot in common with other challenger states such as the Soviet Union in the 1940s.³⁹ An exception of all this is Taiwan. Concerning Taiwan, the one-China policy and one-China principle have marked China’s foreign relations and this won’t change since Chinese identity is involved. One-China is a concept promoted by China. It means that Taiwan is a part of China and thus a part of Chinese identity. It therefore cannot become independent. This in turn influences Chinese relations with the outside world to a great extent.

The aforementioned examples show an ambiguous picture of China and its worldview. China is not a status quo power neither a challenger to the international system per se. Depending on whether it fears the outside world as Mao did or sees benefits in joining the community it adopts different agendas. Those views depend strongly on the personality of the leader. Again the example of Taiwan shows that when Chinese identity is involved e.g. Taiwan’s independence is not an option. The same is visible with China’s attitude on Hong Kong.

³⁵ Qichen, Qian “Qian Qichen on the world situation”, *Beijing Review*, Vol.33, No.3, (1990), pp. 16–18 in Qingmin Zhang “Towards an Integrated Theory of Chinese Foreign Policy: bringing leadership personality back in”, *Journal of Contemporary China*, Vol.23, No.89, (2014), p.902 .
<http://www.tandfonline.com/doi/abs/10.1080/10670564.2014.882566#.VVzEXrntmkon> (accessed 02.04.2015).

³⁶ Johnston, Ibid. pp.5-8, 20.

³⁷ Ibid. p.53.

³⁸ Li, Ibid. p.401.

³⁹ Robert B. Zoellick “Whither China from membership to responsibility?”, Remarks to National Committee on US-Chinese Relations, September 21, 2005, p.2
http://www.ncuscr.org/files/2005Gala_RobertZoellick_Whither_China1.pdf, (accessed 30.03.2015).

2.2 The IMF History

Before taking a look at China's relationship with the IMF and the way in which China may gain power within the international system, a brief account of the history of the IMF is needed. Established by thirty-five countries in 1945, the IMF ensures the daily functioning of the international financial system by for instance helping countries in financial distress.

*“The IMF works to foster global growth and economic stability. It provides policy advice and financing to members in economic difficulties and also works with developing nations to help them achieve macroeconomic stability and reduce poverty.”*⁴⁰

For sixty-five years, the IMF held a central role in the international financial architecture.⁴¹ This important role may explain why China among other countries has an interest in gaining more power in the IMF. The IMF has a long history, is well-established and will probably make path-breaking decisions in the years to come. Today the IMF has 188 members.

From 1945 to the present day the role of the IMF changed depending on the time and challenges it faced. Crucial in this sense were the many crises the institution had to tackle.⁴² Several crises were the Latin American debt crisis in the 1980s and the Asian financial crisis in 1997/8. A crucial year which brought a lot of changes was 1971 which ended the Bretton Woods system and the Gold Standard. After the Second World War the Bretton Woods System was established and determined financial and commercial rules and relations thereafter. The characteristics of the Bretton Woods System were fixed exchange rates and the US Dollar as a reserve currency. The IMF was one of the institutions implemented to ensure the Bretton Woods smooth implementation and operations in monetary management. The IMF's important coordinating role was reduced after the Bretton Woods system ended. Also, the rules countries had to adhere to became less strict. At the same time the end of the Bretton Woods system showed that the US was prepared to leave the system in 1971 and thus change the entire financial system once they didn't benefit any longer.

⁴⁰ “Overview”, <http://www.imf.org/external/about/overview.htm> (accessed 10.03.2015).

⁴¹ “What we do”, <http://www.imf.org/external/about/whatwedo.htm> (accessed 10.03.2015).

⁴² André Broome “The International Monetary Fund, crisis management and credit crunch”, *Australian Journal of International Affairs*, Vol.64, No.1, (February 2010), pp.37-54, <http://web.a.ebscohost.com/ehost/pdfviewer/pdfviewer?sid=365f97df-d428-49e8-9cda-f826a7fdc974%40sessionmgr4005&vid=55&hid=4112> (accessed 10.03.2015).

The crisis of 2008 might also contribute to a changing role of the IMF which could either result in an expansion or a reduction of IMF responsibilities. Until the financial crisis of 2008, the IMF was not called upon by its members who chose other forums but this altered with the crisis.⁴³

Considering reforms, the IMF did regular Quota reviews without significant changes overall. In 1969 the SDRs went into effect. The SDR is equivalent to an international currency; the basket includes the U.S. Dollar, the Japanese yen, the British pound sterling and the euro. IMF members can borrow from it based on their Quota. In 1997 the New Arrangements to Borrow (NAB) were approved by the Executive Board. In general the IMF made adaptations to its daily operations but maintained its governance structure making only small arrangements in the General Quota Reviews.⁴⁴

During the Asian financial crisis the IMF failed to help Asian countries adequately but, to the contrary, its actions made matters worse.⁴⁵ This might have led to a feeling that the IMF is incapable of dealing with international crises and calls for reforms after the crisis.⁴⁶ The IMF thus had to prove its legitimacy throughout its history by providing successful assistance to its members. It did so by adapting its operating procedures and the relationship with its member countries, but not through reforms in governance. The IMF history shows that the institution learned and changed when confronted with certain challenges but has never been future-oriented or planned for change.⁴⁷ This means that until and unless pressure is created by its members, no changes will occur.

Since the global financial crisis however, the IMF suffers all the more from a capacity i.e. funds availability and legitimacy, the allocation of quota problem. Further reforms are necessary. In general, individual member states impact reforms to a great extent because reforms are financed by member states but drafting such changes is left to IMF staff.⁴⁸ Thus reform success depends on each member state.

The history of IMF governance can thus be characterized by stability and continuity. The institution hasn't experienced fundamental changes before the first reforms of 2006. Change will probably only take place once enough pressure is generated by its members.

⁴³ Ibid. pp.37,38.

⁴⁴ "IMF Chronology", <https://www.imf.org/external/np/exr/chron/chron.asp> (accessed 02.05.2015).

⁴⁵ Broome, Ibid.p.44.

⁴⁶ Neil Dias Karunaratne "The Asian miracle and crisis", *Intereconomics* Vol.34, No.1, (January/February 1999) p.25, www.intereconomics.eu/downloads/getfile.php?id (accessed 03.05.2015).

⁴⁷ Graham Bird "The IMF: A Bird's Eye View of Its Role and Operations", *Journal of Economic Surveys* Vol.21, No.4, (September 2007), p.687, <http://web.a.ebscohost.com/ehost/pdfviewer/pdfviewer?sid=365f97df-d428-49e8-9cda-f826a7fdc974%40sessionmgr4005&vid=61&hid=4112> (accessed 10.04.2015).

⁴⁸ Dries Lesage et al. "IMF reform after the crisis", *International Politics* Vol.50, No.4, (July 2013), pp.554–556, <http://search.proquest.com/docview/1364541800?accountid=15618> (accessed 10.04.2015).

2.3 The IMF Power Structure

The ability of members to exert pressure for change depends to a great degree on the power structure of the IMF. Therefore the power structure needs to be analyzed to show where members have to interfere when interested in gaining power within the system. Most important is the Quota which is assigned to each country is a decisive instrument. The Quota is assigned when a country enters the IMF and reflects the country's relative size in the world economy.⁴⁹ The Quota defines the voting power of the country within the IMF, its access to financing, its maximum financial contribution, SDR allocations and thus determines the entire relationship between the member and the IMF.⁵⁰ The Quota thus determines each country's strength within the system of the IMF. The IMF, in order to remain credible and legitimate, has to adapt the Quota and respect countries' voices for changes.

The votes are comprised of basic votes and additional votes for each 100.000 SDR of quota.⁵¹ Since the 2008 reforms, the basic votes are fixed at 5.502% of the total votes.⁵² This would imply that relative weights for countries, with small weights would increase and be reduced when the relative weight in the economy is large. One can thus observe shifts taking place after the 2008 reform already.

Depending on the importance and kind of a decision the percentage of approval needed by members is set. The approval of loans, policy decisions and other matters can be decided by a simple majority vote by the Executive Board or Board of Governors. Major decisions need a supermajority vote of 70% or 85%. Financial and operational issues require a 70% supermajority vote (e.g. interest rates on IMF loans) whereas 85% is required for the most important decisions such as Quota increase or the admission of new members.⁵³ Quota reviews by the Board of Governors take place every five years and any changes have to be approved by 85% of the total votes.⁵⁴ This means that changes are taking place on a regular basis. The US has a veto power over every quota change because its voice is greater than 15%. The US can thus exert political pressure on members as no other single member can. It can use the veto power to push a country to US favored policies.

⁴⁹ "Membership", <http://www.imf.org/external/about/members.htm> (accessed 10.03.2015).

⁵⁰ Ibid.

⁵¹ "IMF Quotas", <http://www.imf.org/external/np/exr/facts/quotas.htm> (accessed 10.03.2015).

⁵² Ibid.

⁵³ Martin A. Weiss "International Monetary Fund: Background and Issues for Congress", July 17, 2014, p.7, <https://www.fas.org/sgp/crs/misc/R42019.pdf> (accessed 30.04.2015).

⁵⁴ "IMF Quotas", Ibid. <http://www.imf.org/external/np/exr/facts/quotas.htm>.

The Board of Governors, which meets once a year, is the highest decision-making body in the IMF and “consists of one governor and alternate governor for each member country”.⁵⁵ This first of all means that every member participates in every decision made. However, differences are obvious when it comes to the Quota which weights the voices countries have. This means that strong countries have a decisive advantage as they have to agree to loss of votes and the gain of others.

Current reforms, however, are said to benefit emerging economies. While the Board of Governors has delegated many of its powers to the Executive Board, the most important such as i.e.,

“the right to approve quota increases, special drawing right (SDR) allocations, the admittance of new members, compulsory withdrawal of members, and amendments to the Articles of Agreement and By-Laws” remain in the hand of the Board of Governors.

Of the 24 members in the Executive Board, five are elected by member countries with the largest quotas, the United States, Japan, Germany, France, and the United Kingdom together holding 40% voting power, and the rest are elected by the remaining member countries. However, current reforms will result in all 24 being elected by all members. Decisions by the Executive Board also reflect the quota assigned to member countries. The most powerful countries in the IMF thus benefit twice, when choosing the members of the Executive Board and when decisions are made. The IMF Managing Director is appointed by the Executive Board for a five-year term and is the chairman of the executive board and Head of IMF staff.⁵⁶ The IMF Managing Director has always been a European. The procedure of appointing the Managing Director is controversial, too.

It doesn't reflect members. The IMF's own legitimacy however is dependent on its reflecting a country's position in the world economy via its contributions to the IMF. Otherwise the IMF would lack funds to act in times of crisis and a legitimacy crisis result. On the other hand, a country which tries to gain a higher quota not to reflect its economic weight doesn't try to change the rules but bends them to their own advantage.

⁵⁵ “IMF Members' Quotas and Voting Power, and IMF Board of Governors”, last update 10.03.2015, <http://www.imf.org/external/np/sec/memdir/members.aspx> (accessed 10.03.2015).

⁵⁶ “How the IMF Makes Decisions”, last update 30.09.2014, <http://www.imf.org/external/np/exr/facts/govern.htm> (accessed 10.03.2015).

Still, bending rules is illegitimate. Therefore Chinese actions have to be judged based on the possibilities of acting within the system when trying to gain more power. The structure shows that the implementation of changes is time-consuming. In order for China to gain more say in the IMF there is only one means, to increase its quota, and its contributions China should also aim at Chinese holding important positions in the IMF.

2.4 China and the IMF

The way China will try to do that may depend on its relation with the IMF and its experience within the IMF over time. China's position in the IMF and the development of IMF-Chinese relations are thus crucial to understand to be able to put the results of the analysis into context. Due to the specificity of the topic only a few sources were available. Thus in this chapter these sources will be summarized and analyzed.⁵⁷

China's first contact with the IMF was very early in the institution's history. China, one of the founding members, joined the IMF on December 27 1945. In 1980 the People's Republic of China (PRC) took over the responsibility for China's relations with the IMF and the initial quota for China was set. Before 1980, up until the early 1970s the IMF was regarded by China as a capitalist instrument whose only purpose was to exploit its members. China approached the IMF in a hostile way. Taking over responsibility in the 1980s therefore means to end the hostile approach, to actually participate in the IMF and to accept the Fund's rules. China's quota increased the same year and again in 1983 to 2.39billion SDR becoming the ninth largest in the IMF.⁵⁸ Being responsive to changes in China's relative position in the world economy, the IMF might have created expectations of future rapid increases. However, financial support in the initial stages of Chinese entry onto the international economic scene and its economic success was also in Western interests. When China opened its economy

⁵⁷ Harold K. Jacobson and Michel Oksenberg, *China's participation in the IMF, the World Bank and GATT: toward a global economic order* (Ann Arbor: Michigan University Press, 1990), pp.1-228, https://www.press.umich.edu/13227/chinas_participation_in_the_imf_the_world_bank_and_gatt, https://books.google.cz/books?id=E7Knn5k0U_8C&printsec=frontcover&hl=de&source=gbs_ge_summary_r&cad=0#v=onepage&q&f=false (accessed 20.04.2015).

Peter Ferdinand and Jue Wang "China and the IMF: from mimicry towards pragmatic international institutional pluralism", *International Affairs* Vol. 89 No.4 (2013), pp.895-910, <http://web.a.ebscohost.com/ehost/pdfviewer/pdfviewer?sid=365f97df-d428-49e8-9cda-f826a7fdc974%40sessionmgr4005&vid=66&hid=4112> (accessed 20.04.2015) and "At a Glance- China and the IMF" last update 01.09.2004, <https://www.imf.org/external/country/chn/rr/glance.htm>, (accessed 11.03.2015).

⁵⁸ Jacobson and Oksenberg, *Ibid.* p.76.

during the Deng Xiaoping era, it relied on advice by the IMF in order to change its financial system, integrate into global finance and create a market oriented financial system. This reveals a considerable degree of dependence of China on the IMF due to its initial lack of knowledge about the international financial system. Today China is well informed about the workings of the international financial system. Due to consistent pressure, China's quota increased gradually over the years. Those increases were put in place during regular Quota Reviews and not through reforms. The reform of 2010 is said to have the largest impact on power shift in the Fund's history. Four BRICS members, minus South Africa, will be among the ten largest shareholders and China will become the third largest.

Complying with IMF rules, so far (1999) China has not tried to change decision-making and proposed just few new rules.⁵⁹ It follows that China's relationship with the IMF, a US dominated institution, changed especially after the economic crisis of 2008 when China's relative power compared to that of the US increased. This relative power shift around 2008 led to optimism for reforms.⁶⁰ All reforms, however, are locked into the initial IMF's political and economic obligation to represent its members. After having been appointed special advisor to the managing director in 2010, Zhu Min became the first Chinese managing director of the IMF in 2011. This step proved to be significant for China's status in the institution yet should not be overrated. Reforms revealed how little impact IMF staff has when it comes to changes in the institution.

Still, to be able to have a Chinese managing director remains an important gesture. Albeit promoting diversity of staff for better decision-making via the diversity principle, the IMF Chinese staff remains behind its quota. This is not true for the year 2014 however.⁶¹ Published once a year, diversity reports, along with the diversity principle, have been implemented for several years. Related to the promotion of employees, the report of 2011 shows that Chinese staff is not promoted as a result of its underrepresentation in governance. Again, even though IMF staff has limited impact on major decisions and changes, its staffing pattern, still reflects the overall Western domination within the institution.

⁵⁹ Johnston, *Ibid.* p.23.

⁶⁰ Lesage et al., *Ibid.* p.559.

⁶¹ "IMF Diversity Annual Report 2007" <https://www.imf.org/external/np/div/2007/index.pdf>, p.26, "IMF Diversity Annual Report 2009", <https://www.imf.org/external/np/div/2009/index.pdf>, p.32 "IMF Diversity Annual Report 2011", <https://www.imf.org/external/np/div/2011/index.pdf>, p.37 "IMF Diversity Annual Report 2014", <https://www.imf.org/external/np/div/2014/index.pdf>, p.37, (accessed 27.04.2015).

The only time China borrowed money from the IMF was in 1981 which means that the IMF cannot guide Chinese actions through financial assistance. 1981 was right after China's quota in the IMF was set and borrowing money can therefore be regarded as the first step of adhering to the rules and adopting IMF standards. The example may have helped China to understand in what ways it can benefit from its membership. In 2008, this relationship reversed and the IMF was dependent on Chinese financial support to deal with the crisis.

IMF technical assistance focusing on methodological issues about reporting standards were always welcomed by Chinese officials since they didn't interfere with Chinese domestic economic policies. This again shows China's fear of domestic interference by foreign powers. The Chinese Communist Party (CCP) intends to stay in control. The strict line between domestic and foreign Chinese affairs is again visible in the IMF. This differentiation might be the reason for China not turning to the IMF in a crisis. With the members of the mission team going to China for annual consultations varying each year, the Fund is unable to develop additional expertise on China. One benefit of Chinese integration into the system is to learn more about its economies and preferences. This chance has been missed and is not taken seriously.

China, cautious about what the IMF publishes from their consultations, blocked publications from 2007-2009. The People's Bank of China (PBC) is primarily responsible for Chinese-IMF relations; the staff dealing with the IMF however is not involved in the decision-making of the bank. Again foreign and domestic affairs are separated. During the financial crisis of 2008 China helped other countries providing money e.g. in the euro zone crisis and thus prevented systemic threats. This shows, if necessary, China is prepared to help to stabilize the status quo. Following the Mexican crisis, the IMF established regional organizations to resist future IMF pressure for policy prescriptions. The IMF crisis management however didn't build confidence in the past. Due to the Asian crisis in 1997-8, the Chiang Mai Initiative (CMI) was established by China in 2000. The CMI is a multilateral currency swap arranged among ten ASEAN members including China to be able to manage short-term liquidity problems. But, when a certain amount of financial aid has to be withdrawn, the threshold increased in recent years, the CMI is tied to the IMF, i.e., funds drawn jointly from CMI and IMF thus China cooperated with the IMF.

China's relations with the IMF reveal on the one side Chinese inability to push through its aims at certain points and, on the other hand, the IMF is not in control of

China. If either of them is unwilling to pursue the other's demands, there is no way to force decisions. Still, in order to preserve the system, China did what it deemed to be necessary. China's relations with the IMF revealed important dynamics between the Fund and its members.

2.5 The BRICS: A Status Quo Challenger?

But recently a new group entered the world stage and may have an impact on the international system. The term "BRICS" was coined by Jim O' Neill in 2001 and was first published in a Goldman Sachs report.⁶² The "BRICS" having been invented by the West progressively institutionalized in the last decade e.g. the BRICS Forum and the New Development Bank. South Africa joined as a full member in 2011. Today, neither politicians nor economists can ignore or overlook this group and their demands easily.⁶³ Accounting for 40% of the world's population with their economies growing at an enormous pace, the BRICS, as a group, have enjoyed a positive position in international organizations such as the IMF. Thus the BRICS didn't appear suddenly during the global financial crisis. On the contrary, the financial crisis seemed to have given the group more significance. One argument why the BRICS cooperate to the extent they do today originates in the legitimacy crisis of the international financial order in 2008; trust was enhanced due to the cooperation in the beginning and will for this reason most likely continue.⁶⁴ The BRICS are not just a phenomenon about to disappear in the near future and must be taken seriously.

The common denominator of the BRIC countries from the beginning was to reform international institutions and the international financial order.⁶⁵ Their economies are too different to be able to provide the basis for common ground. The reason for the BRICS to cooperate thus is found within the international system itself. Other scholars

⁶² Jim O'Neill "Building Better Global Economic BRICS", *Global Economics Paper* 66. New York Goldman Sachs, (November 2001), pp.1–16, <http://www.goldmansachs.com/our-thinking/archive/archive-pdfs/build-better-brics.pdf> (accessed 15.03.2015).

⁶³ Michael A. Glosny "China and the BRICS: A Real (but Limited) Partnership in a Unipolar World", *Polity* Vol.42, No.1, (January 2010), p.11, <http://web.a.ebscohost.com/ehost/pdfviewer/pdfviewer?sid=365f97df-d428-49e8-9cda-f826a7fdc974%40sessionmgr4005&vid=70&hid=4112> (accessed 13.03.2015).

⁶⁴ Oliver Stuenkel "The Financial Crisis, Contested Legitimacy, and the Genesis of intra-BRICS Cooperation", *Global Governance* Vol. 19, No.4, (October-December 2013), p.611, <http://web.a.ebscohost.com/ehost/pdfviewer/pdfviewer?sid=365f97df-d428-49e8-9cda-f826a7fdc974%40sessionmgr4005&vid=73&hid=4112> (accessed 13.03.2015).

⁶⁵ Ibid. p.615.

emphasize that the BRICS don't have a choice other than to reform the international system because, dependence on the US is too great and the US may take unfavorable measures.⁶⁶ However, preventive measures might also be taken trying to gain more power within the current system and therefore the BRICS' economies might be harmed.

The first meeting took place in 2008. The meeting in 2008 in Sao Paulo of the BRIC's finance ministers provided opportunities to protect themselves against the global financial crisis, plus adapting global structures to BRIC's favor.⁶⁷ The meeting shows that the initial intention was not to change the global financial system completely. Reforms were necessary as the current system didn't provide for sufficient financial resources. One example for the BRIC's influence after 2008 is the 2009 G-20 meeting where the BRIC countries set the agenda and influenced the final declaration significantly.⁶⁸ The declaration supported greater regulation, international cooperation and other steps to return to and maintain financial stability.⁶⁹ This immediate political success might have prompted the countries to keep working together to achieve their goals within the financial system. But the aforementioned goals were commonly accepted. The 2010 IMF quota reforms can be regarded as another example of the BRIC's agenda.⁷⁰ However, the IMF quota reform is not yet approved.⁷¹ To what extent developments in the IMF will affect the BRICS' goals and agenda remains unclear.

The West is open to meeting the BRICS' demands and the BRICS are working within the system.⁷² To point out that China is a major beneficiary of the current system leads to the conclusion that it seeks to fix deficiencies from the inside.⁷³ The BRICS were able to succeed within the current system and their incentives to maintain it should not be underestimated.⁷⁴ These hypotheses may only be valid if the BRICS continue to benefit or else they might try to change the system. The BRICS don't have an agenda for an alternative system.⁷⁵

Having an agenda may require taking one step at a time and being confident. Focusing on global interdependence instead of a global power shift, the BRICS operate

⁶⁶ Glosny, Ibid. pp.100, 104, 115.

⁶⁷ Stuenkel, Ibid. p.612.

⁶⁸ Ibid.

⁶⁹ "Declaration on Strengthening the Financial System", G20 London Summit (02.04.2009) pp.1-6, <http://www.g20.utoronto.ca/summits/2009london.html> (accessed 12.05.2015).

⁷⁰ Stuenkel, Ibid. p.612.

⁷¹ "IMF Quotas", Ibid. <http://www.imf.org/external/np/exr/facts/quotas.htm>.

⁷² Glosny, Ibid. p.100.

⁷³ Ibid. p.102.

⁷⁴ Zhenbo Hou "The BRICS and Global Governance Reform: Can the BRICS provide leadership?", *Development* Vol. 56, No. 3, (2014) p.357, <http://web.a.ebscohost.com/ehost/detail/detail?vid=78&sid=365f97df-d428-49e8-9cda-f826a7fdc974%40sessionmgr4005&hid=4112&bdata=JkF1dGhUeXBIPWlwLHVpZCxlcmwmc2l0ZT1laG9zdC1saXZl#db=poh&AN=96538271> (accessed 15.03.2015).

⁷⁵ Glosny, Ibid. p.119.

well in the international field and are thus conceptualized as an “international regime”. This implies that they operate well within the current system. On the other hand, global interdependence is stressed. The BRICS occupy important positions in the global supply chain and international energy flows. Increased dependence by international powers on the BRICS emphasizes their importance. In addition, avoiding the BRICS becomes more difficult. The author Ünay Sadik furthermore emphasizes that current decisive power instruments in international global governance structures reflect interests of the old powers. The IMF governance structure supports this statement. Still, the BRICS are needed by its members to fulfill different purposes. Russia needs the BRICS for its own national self-esteem after the collapse of the Soviet Union and because its economy is extremely volatile being dependent on oil and gas prices. This example shows, the BRICS are countries with different political goals, different political systems and economies. Although involved in territorial disputes with one another, they still cooperate in international economic institutions such as the IMF.⁷⁶ The disputes may harm cooperation significantly.

China enjoys a special position within the group of the BRICS. It can be assumed that China is the most influential actor in the Development Bank and thus in the BRICS.⁷⁷ Regarded as the leader of the group China especially strives for a multilateral world order while seeking to take advantage of their integration into the global world order leading from behind.⁷⁸ The country benefits among other things by stabilizing its international environment, maximizing leverage and hiding in a group to avoid negative attention.⁷⁹ Negative attention might refer to preventive measures taken by the US if China acts too aggressively. China like the other BRICS countries wants to give up as little decision-making authority as possible while gaining as many benefits as possible.⁸⁰ This means: shifting global governance within international institutions such as the IMF to its advantage without losing benefits. Looking at other countries’ behaviors more closely, this surely represents the interests of all countries. China is no exception. One benefit it currently has is few responsibilities in the international system. More responsibility may harm Chinese economy or lead to instability. But even if the BRICS

⁷⁶ Ünay, Ibid. pp. 77–79, 85–86, 89.

⁷⁷ Rich Marino *The Future BRICS: A SYNERGISTIC ECONOMIC ALLIANCE OR BUSINESS AS USUAL?* New York. Palgrave Macmillan, (2014) p.12.

⁷⁸ Ünay, Ibid. p.85.

⁷⁹ Glosny, Ibid. p.100.

⁸⁰ Miles Kahler “Rising Powers and Global Governance: Negotiating change”, *International Affairs* Vol.89, No.3, (2013), 711–729, <http://web.a.ebscohost.com/ehost/pdfviewer/pdfviewer?sid=365f97df-d428-49e8-9cda-f826a7fdc974%40sessionmgr4005&vid=90&hid=4112> (accessed 05.05.2015).

become more powerful, nothing in 2010 indicates today that they might try to overthrow the system.⁸¹ 2010, the year of the reforms not yet approved, may trigger a turn in the BRICS' foreign relations.

Some points are still important to keep in mind. The new order is defined as the reduction of influence established countries are able to exert those formerly on the peripheral and seeking consensus in the immediate aftermath of the financial crisis in 2008.⁸² The crisis of 2008 is not an adequate example for the situation was difficult and time pressures were high. As most Chinese businesses are global, global governance has become an important factor for China and companies want their government to take a more active role.⁸³ Several Chinese scholars see the emerging countries in a phase of transition of influence in international decision-making.⁸⁴

China wants to play a more influential role and influences the BRICS to a great extent. The BRICS want to reform the system. One way to push for reforms might be the New Development Bank.

2.6 The New Development Bank

The New Development Bank, "NDB" was established by the BRICS in 2014 to finance infrastructure projects in developing countries and BRICS' countries.⁸⁵ Its establishment and the role of the NDB are controversial. The Contingency Reserve Arrangements (CRA) also provides troubled countries in payment crises or currency depreciation problems with capital, a role similar to that of the IMF.⁸⁶ The IMF advises developing countries and helps them financially. The NDB is completely separate from IMF operations. It compliments current institutions such as the World Bank and the IMF because it cannot challenge them.⁸⁷

⁸¹ Glosny, Ibid. p.102.

⁸² Ünay, Ibid. pp.80–82.

⁸³ Cai Tuo and Hao Yang *Provision of Global Public Goods – China's choice and practice* (2012), Shi Jie Jing Ji Yu Zheng Zhi, 10, 2012, http://www.usc.cuhk.edu.hk/PaperCollection/webmanager/wkfiles/2012/8885_1_paper.pdf. (accessed 25.04.2015) in Zhenbo, Hou "The BRICS and Global Governance Reform", p.361

⁸⁴ Zhenbo, Ibid. p.360.

⁸⁵ "Agreement on the New Development Bank- Fortaleza July 15", Brazilian Ministry of External Relations, <http://brics6.itamaraty.gov.br/media2/press-releases/219-agreement-on-the-new-development-bank-fortaleza-july-15> (accessed 18.04.2015).

⁸⁶ "Treaty for the Establishment of a BRICS Contingent Reserve Arrangement" Fortaleza Brazil, July 15, 2014, <http://brics6.itamaraty.gov.br/media2/press-releases/220-treaty-for-the-establishment-of-a-brics-contingent-reserve-arrangement-fortaleza-july-15> (accessed 18.04.2015).

⁸⁷ Daniel Epstein "New Development? The BRICS Bank and the International System" *Harvard International Review* Vol.36, No.2, (02.01.2015), <http://hir.harvard.edu/archives/8273> (accessed 18.04.2015).

The start-up capital for the Bank is 50 bn U.S. Dollars with the goal to reach 100 bn U.S. Dollars from contributions by all founding members. This bank was said to be the only “concrete action” taken by the BRICS who criticized the US for policies in Afghanistan but didn’t make alternative suggestions.⁸⁸ But concrete was also the demand for reforms at the IMF. Maybe the Development Bank is the only formal institutional decision, one’s consequences we can grasp, they committed themselves to. Still, the name “New Development Bank” might indicate where the BRICS are heading to; a new system?

One question is how powerful is the New Development Bank? The start-up capital is relatively small compared to the World Bank’s Funding. On the other hand Chinese banks have a more important financing role than the World Bank.⁸⁹ This means the potential of the NDB in theory is much greater. Still the New Development Bank should cooperate with other institutions.⁹⁰ The NDB is open to new members. For instance, UN members can join as borrowers or non-borrowing countries.⁹¹

An international group, the BRICS remains an “exclusive club”. The New Development Bank is an international institution addressed to everyone in the international community. Among those interested in joining at this point are Argentina, Indonesia and Mexico.⁹² The Bank’s headquarters are located in Shanghai. This fact already points to China’s leading position in the group as well as within the Bank. The Bank’s President and Vice President will be elected by one of the founding members. This would imply that members joining later may not have a significant voice on questions of great importance. The Bank’s governance framework would thus be designed to suit the will and needs of its founding members, foremost amongst them China. However, the principle of equal voting rights is in stark contrast to the principles of quotas followed by the IMF. Equal voting rights don’t contribute to the feeling of a “Chinese dictatorship or dominance” unlike the US veto right in the IMF.⁹³

The establishment of the New Development Bank is a significant step but should not be overrated. The Bank seems to be open to new members but may lack sufficient funds to evolve into an international player. In addition its future development will depend on

⁸⁸ Käkönen, Ibid. pp.96,97.

⁸⁹ Martin Jacques *When China Rules the World. The End of Western World and the Birth of a New Global Order* Penguin Books London (2012) p. 480 in Jyrki, Käkönen. “BRICS as a new power in international relations?”, *Geopolitics, History and International Relations* Vol.6 No.2 2014 p.97.

⁹⁰ “Agreement on the New Development Bank” Fortaleza Brazil July 15, 2014, <http://www.brics.utoronto.ca/docs/140715-bank.html> (accessed 17.04.2015).

⁹¹ Ibid.

⁹² Kumar Rhea “Building BRICS: An Assessment of the New Development Bank”, *The Politic* (17.01. 2015), <http://thepolitic.org/building-brics-an-assessment-of-the-new-development-bank/> (accessed 18.04.2015).

⁹³ “Agreement on the New Development Bank”, Ibid. <http://www.brics.utoronto.ca/docs/140715-bank.html>.

the BRICS' ability to cooperate. The Bank may pressure the IMF to agree on further reforms which started in 2006.

3. Reforming the IMF before 2008

The IMF witnessed profound changes in its governance structure over the last decade. All-embracing governance reforms began in 2006 at the Singapore summit as members continued to discuss how developing countries could obtain more decision-making power reflecting their relative position in the world economy. In 2006 the first reforms were agreed on and approved by a majority of 90.6% of the voting power.⁹⁴ They were first proposed in 2003. The reforms required an 85% majority so US approval was indispensable. The report of the Executive Board and Resolution published outlined a detailed plan of reforms to be implemented within the subsequent years 2006-2008. The first part of reforms consisted of ad hoc quota increases for China, Turkey, Mexico and Korea. Considered for ad hoc increases were countries which were underrepresented under the current formula and whose increase would not predetermine discussions about a new quota formula. Quota reforms should have started after Singapore before the annual meeting in 2007. IMF members supported formulas placing a higher weight on factors like GDP and variability. A second round of ad hoc increases was planned based on the new formula for a wider set of countries. The realignment of quotas should reflect a country's relative position in the world economy and should not be on a proportion of the existing quota. The plan outlined an increase of basic votes and the maintenance of a certain ratio of the basic votes to the country's total votes. In addition, the selection of the managing director should become more transparent and African countries should receive additional resources and help. These reforms present the common opinion of IMF members and were therefore ratified until 2008. The Reforms were essential due to the insufficient representation of smaller or developing countries. Reflecting economic realities is the overall aim enhancing low-

⁹⁴ "IMF Board of Governors Approves Quota and Related Governance Reforms", <https://www.imf.org/external/np/sec/pr/2006/pr06205.htm> (accessed 20.04.2015).

income countries' votes because the IMF plays an important financial role for them. Additionally the report clarifies that all members will benefit from the changes.⁹⁵

The importance of enhancing the institution's credibility and cooperation among its members is emphasized. The Fund shall be strengthened so that all members may benefit.⁹⁶ A possible legitimacy problem of the IMF is thus not mentioned explicitly even though most aspects of the problem are outlined.

Questions about the importance of the Fund and its ability to cope with a possible major future crisis were already raised by the media in 2007. "Many sitting on the huge reserves" e.g. China don't want to be told what to do any longer. The feeling to be treated unfairly by the US and other wealthy countries is especially apparent in the case of the developing countries. Russia used the IMF crisis and chose a second candidate to that of Dominique Strauss Kahn, Josef Tosovsky who should represent the emerging economies.⁹⁷ This candidature failed due to lacking support of the Czech government which supported the French candidate. Yet discussions about the need for reforms remained. So, even though the first reform proposal didn't mention the legitimacy crisis, it was already there and might have been one of the reasons to start reforms in the first place. The entire Fund and its role were called into question. The different publications show distinctively how the problem was perceived within the Fund and outside of it. The media however presented the problem far more critical.

Low-income countries were very dissatisfied and critical with the system. Questioned by low-income member states before 2008 was the voting system which should according to them value the equality of states more than the resources a country contributes to the Fund.⁹⁸ The reason might be a perceived inability for meaningful IMF governance on the side of the developing countries which creates a perception of systematic unfairness.⁹⁹ This perception arises not only because of procedures within the IMF but other institutions as well. The IMF e.g. has always been headed by a European, whereas the World Bank has been run by an American. So at the forefront were nationalities and not economic capabilities nor qualification of the staff or the equality of states. While it is true that the IMF never had to adapt radically to changes, it

⁹⁵ "Report of the Executive Board to the Board of Governors: Quota and Voice Reform in the International Monetary Fund published August 31st 2006", (31.08.2006), pp.1-5 <https://www.imf.org/external/np/pp/eng/2006/083106.pdf> (accessed 20.04.2015).

⁹⁶ "Report of the Managing Director to the International Monetary and Financial Committee on IMF Quota and Voice Reform", (14.09.2006), pp.1-11, <https://www.imf.org/external/np/pp/eng/2006/091406q.pdf> (accessed 20.04.2015).

⁹⁷ Steven R. Weisman "I.M.F. Faces a Question of Identity," *New York Times*, (September 28, 2007), <http://www.nytimes.com/2007/09/28/business/worldbusiness/28imf.html> (accessed 23.04.2015).

⁹⁸ David P. Rapkin and Jonathan R. Strand, *Ibid.* p.305.

⁹⁹ *Ibid.*

might on the other hand not be prepared today to adapt to new circumstances and the different realities and challenges in the 21st century.

Comparing Chinese claims with the outcomes of the reforms one can see a huge overlap. The reforms were said to be a triumph for China.¹⁰⁰ They mainly contain Chinese proposals. An explanation might be that IMF reforms were discussed in connection with the rise of emerging economies especially China and Brazil and their right to more decision-making power.¹⁰¹ China had an average annual GDP growth of 10.29% from 2000 to 2009; the highest growth was 14.2% in 2007.¹⁰² This remarkable economic success might have been the reason for other countries to approach China. In 2007 already countries like Venezuela turned to China to create a Bank of the South which would not be dominated by “the Empire” (the US).¹⁰³ The establishment of a joint bank thus presented no new idea. The IMF grasped this tendency and reacted to it in 2005 already. The problem of underrepresentation of emerging and developing countries is addressed in 2005.¹⁰⁴ One positive effect of this address or early awareness of the Fund was the reforms which were implemented steadily and immediately after pressure was growing.

The role emerging and developing countries have and their contributions in global economic growth were stressed by China. Perceived as important economic actors by China and not by the IMF the developing countries might have felt valued by China. Discussions about IMF reforms are welcomed by China, but should be given higher priority. Developed countries are urged to show flexibility and foresight in this matter.¹⁰⁵ The Chinese at this point might have already expected US resistance. They appeal for reforms and place themselves at the front of the developing countries at the same time. They might try to become the voice of all emerging countries and support their interests. China’s representative says the IMF should continue playing its role as the primary platform for global development financing.¹⁰⁶ Increasing developing

¹⁰⁰ “IMF reforms give China more power”, *BBC*, (September 18, 2006),

<http://news.bbc.co.uk/2/hi/business/5358520.stm> (accessed 23.04.2015).

¹⁰¹ “IMF lifts world growth estimates”, *BBC*, (September 14, 2006), <http://news.bbc.co.uk/2/hi/business/5343016.stm> (accessed 23.04.2015).

¹⁰² “GDP growth (annual %)”, World Bank, <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?page=2>, <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?page=1> (accessed 27.04.2015).

¹⁰³ “Venezuela, The World Bank and the IMF: Wolf v Wolf”, *The Economist*, (May 10, 2007), <http://www.economist.com/node/9150797> (accessed 23.04.2015).

¹⁰⁴ Rodrigo de Rato “Sustaining Global Growth and Stability-The Role of the IMF” delivered Georgetown University Washington D.C., April 6, 2005, <http://www.imf.org/external/np/speeches/2005/040605.htm> (accessed 24.04.2015).

¹⁰⁵ Ruogu Li, “Statement by Mr. Li Ruogu Deputy Governor of the People’s Bank of China at the eleventh meeting of the International Monetary and Financial Committee”, Washington D.C, (April 16, 2005), pp.1-6, <http://www.imf.org/External/spring/2005/imfc/stmt/eng/chn.pdf> (accessed 24.04.2015).

¹⁰⁶ Renqing, Jin, “Statement by Hon. JIN Renqing, Governor of the Bank for the People’s Republic of China, at the Joint Annual Discussion”, annual meeting of the Board of Governors, Washington D.C., (September 24-25, 2005), p.3, <http://www.imf.org/external/am/2005/speeches/pr13e.pdf> (accessed 24.04.2015).

countries' say in decision-making is important in order for policies to reflect interests of all members.¹⁰⁷ The call for reforms is welcomed but at the same time an appeal is made to speed up the process.¹⁰⁸ In addition China wants the Fund to increase the basic quota to augment the voice of African countries in particular.¹⁰⁹ Chinese calls were heard by the IMF.

Rodrigo de Rato Managing Director of the Fund explained the need to adapt to changes in a globalizing world with emerging economies in 2006.¹¹⁰ China reacted immediately to this statement to support reforms. In September 2006 China backed the proposed governance reform and addressed members to keep the "reform momentum".¹¹¹ The implementation of the two-year reform agenda was again backed in April 2007.¹¹² The constant support and reminding of reform implementation might indeed have resulted in other countries keeping the reform momentum. In addition China repeatedly emphasized its dedication to assist other developing countries in South-South cooperation.¹¹³ The Chinese focused on reforms from the beginning of the process supported by the Fund. The Managing Director explains in 2007 that it is important for the Fund's members to be able to address the 21st century and that the Fund therefore needs to be attentive but is in disposition of sufficient financial resources to help.¹¹⁴ The legitimacy of the Fund is not connected with its role in the international economy. This is to change as one can see later after the financial crisis. What remains for China therefore is to address the problem of IMF to reflect the economic weight of a country properly.

In order to achieve this goal in October 2007 China further said that the overall ad hoc increase should be not less than 12.5% and should not be solely considered under

¹⁰⁷ Ibid. p.6

¹⁰⁸ Xiaochan, Zhou, "Statement by Zhou Xiaochan Governor, People's Bank of China at the twelfth Meeting of the International Monetary and Financial Committee", Washington D.C., (September 24, 2005), p.6, <http://www.imf.org/External/AM/2005/imfc/stmt/eng/chn.pdf> (accessed 24.04.2015).

¹⁰⁹ Xiaochan, Zhou "Statement by Zhou Xiaochan Governor of the People's Bank of China at the thirteenth Meeting of the International Monetary and Financial Committee", Washington D.C., (April 22, 2006), p.5 <http://www.imf.org/External/spring/2006/imfc/statement/eng/chn.pdf> (accessed 24.04.2015).

¹¹⁰ Rodrigo de Rato "Key Steps in IMF Reform: Taking Stock on the Eve of the Annual Meetings in Singapore", delivered at Brookings Institution, Washington D.C., September 5, 2006, <http://www.imf.org/external/np/speeches/2006/090506.htm> (accessed 24.04.2015).

¹¹¹ Xiaochan, Zhou "Statement by Mr. Zhou Xiaochan Governor of the People's Bank of China Fourteenth Meeting of the International Monetary and Financial Committee", Singapore., (September 17, 2006), pp.3,4 <http://www.imf.org/External/AM/2006/imfc/statement/eng/chn.pdf> (accessed 24.04.2015).

¹¹² Xiaolian, Hu "Statement by Madam Hu Xiaolian Deputy Governor, People's Bank of China at the Fifteenth Meeting of the International Monetary and Financial Committee", Washington D.C., (April 14, 2007), p.4, <http://www.imf.org/External/spring/2007/imfc/statement/eng/chn.pdf> (accessed 24.04.2015).

¹¹³ Xiaochan, Zhou "Statement by Zhou Xiaochan Governor of the People's Bank of China 2006 Joint Annual Discussion" the annual meeting of the Board of Governors, Singapore, (September 19, 2006), p.4 <http://www.imf.org/external/am/2006/speeches/pr50e.pdf> (accessed 24.04.2015).

¹¹⁴ Rodrigo de Rato "Steering a Course Through the Torrent of Change: Principles for Reform of the International Monetary Fund", delivered to Bretton Woods Committee, Washington D.C., (June 12, 2007), <http://www.imf.org/external/np/speeches/2007/061207.htm> (accessed 24.04.2015).

liquidity aspects, the GDP should be given the greatest weight in the new formula. Subsequent efforts should be based on post-Singapore levels. One can see that the consideration of liquidity as a criterion is explicitly excluded by China. Furthermore China focused on the agreed goals and the timeframe of reforms. The idea was to build one reform on the other. The new formula should be based on the GDP, be transparent, simple and easy to implement and should include four variables: GDP, openness, variability and reserves. Variability should be given a higher weight than openness because it would reflect a member's potential need for financial resources better. Basic votes should be increased to increase low-income countries' votes and African Director's offices resources and capacities should be increased. In order to be able to implement the reforms in the set time frame all countries should take a flexible and pragmatic approach.¹¹⁵ Again the attitude of member states as well as the content of the reforms is addressed. According to China the improvement of the Fund's governance structure is vital to the participation and decision-making of developing countries in the institution.¹¹⁶

The years before the financial crisis the international attention was on growing economic imbalances, China's internal reforms and the support for developing or low-income countries.¹¹⁷ In 2005 there were voices saying the IMF would be dead but Mr. Rodrigo de Rato explained that reforms are needed to change the way the IMF works.¹¹⁸ The Fund cannot dictate but needs to persuade its members which it only is able when being legitimate gained through adequate representation of countries with growing economic importance especially in Asia.¹¹⁹ The Fund is therefore already aware of the needs to reform.

Between 2005 and 2008 the US supported IMF and Chinese claims. The US Department of Treasury admitted in 2005 that some developing countries' quotas such as Turkey's are lower than the IMF's own calculations.¹²⁰ Plus a country's weight in the

¹¹⁵ Xiaoling, Wu "Statement by Madam Wu Xiaoling Deputy Governor, People's Bank of China at the Sixteenth Meeting of the International Monetary and Financial Committee", Washington D.C., (October 20, 2007), pp.4,5 <http://www.imf.org/External/AM/2007/imfc/statement/eng/chn.pdf> (accessed 24.04.2015).

¹¹⁶ Yong, Li "Written Statement by Mr. Li Yong, Vice Finance Minister, PR China, at the Opening of 2007 Annual Meetings of Boards of Governors of the World Bank Group and the International Monetary Fund", Washington D.C., (October 22, 2007), p.1, <http://www.imf.org/external/am/2007/speeches/pr34e.pdf> (accessed 24.04.2015).

¹¹⁷ "IMF Executive Board Concludes 2005 Article IV Consultation with the People's Republic of China", September 12, 2005, <http://www.imf.org/external/np/sec/pn/2005/pn05122.htm> (accessed 24.04.2015).

¹¹⁸ Rodrigo de Rato "Remarks by Rodrigo de Rato", delivered at the Institute for International Economics Conference on IMF Reform, September 23, 2005, <http://www.imf.org/external/np/speeches/2005/092305.htm> (accessed 24.04.2015).

¹¹⁹ Ibid.

¹²⁰ Timothy D. Adams "The US View on IMF Reform", presented at the Conference on IMF Reform, Institute for International Economics, Washington D.C., (September 23, 2005), Peterson Institute for International Economics, <https://www.piie.com/publications/papers/paper.cfm?ResearchID=564> (accessed 26.04.2015).

economy is not reflected by the formulas in use. However, the Fund has enough liquidity and there is no need for a quota increase from that part.¹²¹ It seems that all participants confirm to reforms for the same reasons. The Fund does not need additional capital. The truth is the Fund possessed enough financial resources to deal with the pre-crisis every-day business. However, in 2008 it became apparent that the Fund has not enough liquidity to deal with the crisis. There should be a shift from over-represented countries to under-represented ones but without reducing the quota of the poorest countries. In addition the IMF Executive Board should better reflect membership. In spring 2007 generally the US agreed to reforms, however without stating exact figures and claims.¹²²

In the period before the financial crisis reforms agreed on were mostly congruent to what China had suggested. The US agreed to those reforms because they were necessary and didn't reduce US influence in the Fund significantly. Unlike the US China pushed members to ratify the reforms and to continue working on them. China had very specific ideas in mind. Other economic tendencies may have helped China to further pressure the IMF and the US. Swap deals can present one way to undermine US Dollar supremacy. US Dollar lending by the IMF declined from 70bn in 2003 to only 20bn in 2006.¹²³ The reason could be an increase in bilateral swap deals, big ones between China and the EU or China and the Bank of England took place in 2013.¹²⁴ China started using bilateral agreements to pressure the IMF.

Reforms 2008-2010

China's tactics successful before the crisis remained the same between 2008 and 2010. The crisis itself changed conditions in the overall economy and therefore also in the IMF. More reforms building on those already ratified were called for by China and

¹²¹ Ibid.

¹²² Henry M. Paulson "Statement by U.S. Treasury Secretary Henry M. Paulson at the International Monetary and Financial Committee Meeting", Washington D.C., (April 14, 2007), p.3
<http://www.imf.org/External/spring/2007/imfc/statement/eng/usa.pdf> (accessed 26.04.2015).

¹²³ Jan Nederveen, Pieterse "Globalization the Next Round: Sociological Perspectives," *Futures* Vol.40, No.8, (October 2008), p.710 in Jyrki, Kähkönen."BRICS as a new power in international relations?", *Geopolitics, History and International Relations* Vol.6 No.2, 2014 p.95.

¹²⁴ Marino, Ibid. pp.103,104.

other emerging countries. Building on these reforms of 2006 another set of reforms was agreed on in 2008 and entered into force in 2011 (as scheduled). The reforms of 2008 include a quota increase of 54 members, a tripling of basic votes, the establishment of a mechanism to keep a constant ratio of basic to total votes and enabling Executive Directors representing more than 7 countries to appoint a second alternative director.¹²⁵ In fact the reforms of 2008 complement established goals of 2006.

However, during and shortly after the financial crisis calls for reform became imperative. Unable to fulfill its role within the international financial system under these circumstances the IMF was confronted with a new reality. Therefore in 2008 the G20 agreed to reforms in the IMF.¹²⁶ After the financial crisis and due to pressure from the developing countries changes in the IMF were mostly decided during G-20 meetings such as the one in Pittsburgh in 2009 or the one in Toronto in 2010.¹²⁷ China supported reforms, crisis response and rescue mechanisms and helped to support effective monitoring of financial institutions.¹²⁸

Reforms of 2010 would if approved in the future build on reforms of 2008. The target date for completion was October 2012.¹²⁹ The reforms include a doubling of the quota, a shift of 6% from overrepresented to underrepresented countries, shift more than 6% to developing countries and emerging markets, realign quota shares (China becoming the third largest member) and preserve the voting share of the poorest countries.¹³⁰ China would have the third largest quota after the US and Japan. The increase in quota leads to higher financial contributions of IMF members. Part of the difference is taken from the NAB to the quota so that not more money has to be spent. 147 members having 77.24% of the voting power accepted the Amendment on reforming the Executive Board and 164 or 80.34% accepted the quota increase.¹³¹ The percentage of members agreeing to reforms is thus 78% and 87% respectively. Scholars however even question the 2010 reforms on the basis of restoring legitimacy and capacity in the IMF because they wouldn't be sufficient.¹³² This means that further

¹²⁵ "The IMF's 2008 Quota and Voice Reforms Take Effect", March 3, 2011, <https://www.imf.org/external/np/sec/pr/2011/pr1164.htm> (accessed 23.04.2015).

¹²⁶ "Declaration Summit on Financial Markets and the World Economy", G-20 Washington Declaration, (November 15, 2008), pp.1-5, https://g20.org/wp-content/uploads/2014/12/Washington_Declaration_0.pdf (accessed 23.04.2015).

¹²⁷ Liu, *Ibid.* p.132.

¹²⁸ *Ibid.*

¹²⁹ "IMF Quota and Governance Publications", IMF, last update September 11, 2013, <https://www.imf.org/external/np/fin/quotas/pubs/> (accessed 23.04.2015).

¹³⁰ "Factsheet IMF Quotas", last update April 9, 2015, <https://www.imf.org/external/np/exr/facts/quotas.htm> (accessed 23.04.2015).

¹³¹ "Acceptances of the Proposed Amendment of the Articles of Agreement on Reform of the Executive Board and Consents to 2010 Quota increase", <https://www.imf.org/external/np/sec/misc/consents.htm> (accessed 24.04.2015).

¹³² Lesage et al., *Ibid.* p.554.

reforms are necessary. But if reforms of 2010 are not ratified the chance get IMF approval for further reforms is low.

In the report of 2008 by the Executive Board to the Board of Governors enhancing the Fund's legitimacy is emphasized.¹³³ Dominique Strauss-Kahn said that he considers the global governance reform critical to strengthening the international monetary system. The title of his speech already suggests China's leading role in reforming the IMF. So far my analysis supports this hypothesis since China repeatedly talks about the reform process and progress made. The Dollar he expects to remain the principal reserve currency for some time to come.¹³⁴ In November 2010 Dominique Strauss-Kahn said that the legitimacy problem had been solved, new changes will need new adaptations but for now they "catch up with the reality".¹³⁵ This means that Dominique Strauss-Kahn in contrast to some experts believes the reforms of 2010 to be sufficient. China doesn't share this view.

“We stress that the quotas of under-represented members should be further adjusted in the next general quota review and a regular mechanism for quota adjustment established.”¹³⁶

In the beginning of 2008 China enhanced its relationship with the IMF by signing a Memorandum of Understanding.¹³⁷ The overall support for reform is welcomed but reforms are criticized to fall short of the initial objectives of the Singapore Resolution.¹³⁸ Further reforms would therefore be welcomed by the Chinese.¹³⁹ Again progress was appreciated but also steps to take pointed at.¹⁴⁰ The role of the Bretton Woods institutions such as the IMF is of major importance for China.¹⁴¹ In September 2009 the IMF signed a Note Purchase Agreement with China in order to have sufficient

¹³³ “Reform of Quota and Voice in the International Monetary Fund- Report of the Executive Board to the Board of Governors”, March 28, 2008, pp.1-23, <https://www.imf.org/external/np/pp/eng/2008/032108.pdf> (accessed 23.04.2015).

¹³⁴ “China's Leadership Key in Global Economic Recovery and Reform, IMF Managing Director Dominique Strauss-Kahn says” (November 16, 2009), <https://www.imf.org/external/np/sec/pr/2009/pr09408.htm> (accessed 25.04.2015).

¹³⁵ “Transcript of a Press Briefing on IMF Reforms by Dominique Strauss-Kahn, Managing Director of the IMF”, Washington D.C., (November 6, 2010), <https://www.imf.org/external/np/tr/2010/tr110510.htm> (accessed 25.04.2015).

¹³⁶ Xiaochuan, Zhou “Statement by Dr. Zhou Xiaochuan Governor of the People's Bank of China at the seventeenth meeting of the international Monetary and Financial Committee”, Washington D.C, (April 12, 2008), p.3 <http://www.imf.org/External/spring/2008/imfc/statement/eng/chn.pdf> (accessed 25.04.2015).

¹³⁷ “Statement by IMF Managing Director Dominique Strauss-Kahn at the Conclusion of his Visit to China”, (February 15, 2008), <http://www.imf.org/external/np/sec/pr/2008/pr0826.htm> (accessed 25.04.2015).

¹³⁸ Zhou, Ibid. p.3.

¹³⁹ Ibid.

¹⁴⁰ Gang, Yi “Statement by Dr Yi Gang Deputy Governor of the People's Bank of China at the eighteenth Meeting of the international Monetary and Financial Committee”, Washington D.C, (October 11, 2008), p.5 <http://www.imf.org/External/AM/2008/imfc/statement/eng/chn.pdf> (accessed 25.04.2015).

¹⁴¹ Gang, Yi “Statement by the Hon. Dr. Yi Gang Governor of the Fund for the People's Republic of China, at the Joint Annual Discussion”, Statement presented at the annual meetings of the Boards of Governors, Washington D.C., (October 13, 2008), p.2, <http://www.imf.org/external/am/2008/speeches/pr16e.pdf> (accessed 25.04.2015).

financial resources available to assist emerging countries affected by the global financial crisis.¹⁴² A Note Purchase Agreements is a type of loan where the purchaser of the notes invests e.g. in a company and the seller raises money. This agreement reveals the problems addressed in 2007 about the Fund's resources in case of a major crisis. The Fund cannot work properly without governance reform which before was denied. In fact, the crisis of 2008 made apparent the actual problem of not representing a country's real share in the global economy.

China stressed that fundamental reforms are needed to discharge the mandate assigned again having specific ideas in mind. It is important that the Fund implements reforms announced by the G20, at least a 5% shift of quota shares in favor of emerging markets. China supports the increase of funds of the IMF in a variety of means but being a quota-based institution quota should be the primary resource. An automatic quota adjustment system should be introduced to avoid quota share misalignment. China calls for the approval of the 2008 reforms. They further support the broader reform of strengthening the Executive Board and a transparent, competitive merit-based process of management selection. Emerging countries should be represented more in management and staff. Further reforms are necessary to restore the international financial order.¹⁴³

In 2009 China emphasized that the 14th General Quota Review be completed before January 2011.¹⁴⁴ In 2010 this call was repeated, to be completed by the agreed deadline and that China is committed too, to protect the quota share of the poorest members. A 100% Quota increase would be needed to keep the Fund a quota-based institution and the quota formula should be reviewed two years after the completion of the 14th review. The effectiveness of the International Monetary and Financial Committee (IMFC) according to China first of all depends on its representation and not decision-making power.¹⁴⁵ China further had expressed its willingness to deepen cooperation with the IMF on the "basis of mutual benefit" for sustainable global development in 2009.¹⁴⁶

¹⁴² "Note Purchase Agreement Between the People's Republic of China and the International Monetary Fund", (September 2, 2009), p.1, <https://www.imf.org/external/np/pp/eng/2009/090209.pdf> (accessed 25.04.2015).

¹⁴³ Gang, Yi "Statement of Dr. Yi Gang Deputy Governor of the People's Bank of China at the twentieth meeting of the IMFC in Istanbul", (Istanbul, October 4, 2009), pp.3-4, <https://www.imf.org/External/AM/2009/imfc/statement/eng/chn.pdf> (accessed 25.04.2015).

¹⁴⁴ Xuren, Xie "Statement by Hon. Xie Xuren, Governor of the Bank for the People's Republic of China at the Joint Annual Discussion", Istanbul, (October 6, 2009), p.2, <https://www.imf.org/external/am/2009/speeches/pr08e.pdf> (accessed 25.04.2015).

¹⁴⁵ Xiaochuan, Zhou "Statement by the Honorable Zhou Xiaochuan Governor of the People's Bank of China and Governor of the IMF for China at the Twenty-Second Meeting of the International Monetary and Financial Committee", Washington D.C., (October 9, 2010), pp.3-4, <https://www.imf.org/External/AM/2010/imfc/statement/eng/chn.pdf> (accessed 25.04.2015).

¹⁴⁶ Xie, Ibid. p.3, <https://www.imf.org/external/am/2009/speeches/pr08e.pdf>.

Reforms of the international monetary system, establishing a super-sovereign international reserve currency, thereby reducing the world's dependence on US Dollar was one goal proclaimed by the Chinese Central Bank Governor in 2009, but was not the official position of the Chinese government.¹⁴⁷ This either shows how divided experts and politicians are on the subject or that the Chinese government doesn't play with open cards. Reforming the existing international system was necessary according to Dr Zhou Xiaochuan because the crisis had revealed the vulnerabilities and systemic risks of the current international system.¹⁴⁸

In 2010, Dominique Strauss-Kahn named Zhu Min special advisor to the managing Director.¹⁴⁹ In the same year China called for a minimum quota shift of 5% to counteract the severe underrepresentation of the developing countries while protecting voting rights of the poorest countries at the same time.¹⁵⁰ The Fund working on a quota based system should be able to provide sufficient funding by that quota and not primarily through other means. To achieve this and to be able to provide the shift, not less than 100% increase in quota is proposed by China.¹⁵¹ Management staff should be more diverse and representative and the managing director should be selected on an open, transparent and merit-based system.¹⁵²

Meanwhile the IMF took other steps to help low-income countries. It IMF signed agreements with China, France, the UK and Japan to increase loans for low-income countries.¹⁵³ The IMF thus tried to ease pressure for reform supporting developing countries. China on the other hand called for reforms. The reform process has entered a critical stage in 2010 and if approved would set the foundation for broader governance reforms.¹⁵⁴

Similar voices could be heard from the BRICs who in their joint statement of 2009 feel committed to advancing reforms of international financial institutions to reflect

¹⁴⁷ Liu, *Ibid.* pp.132,133.

¹⁴⁸ Xiaochuan Zhou "Zhou Xiaochuan: Reform the international monetary system", BIS Review Vol.41 2009, essay delivered March 23, 2009, pp.1-3, <http://www.bis.org/review/r090402c.pdf> (accessed 23.04.2015).

¹⁴⁹ "IMF Managing Director Dominique Strauss-Kahn Names China's Zhu Min as Special Advisor", February 24, 2010, <http://www.imf.org/external/np/sec/pr/2010/pr1058.htm> (accessed 25.04.2015).

¹⁵⁰ Xiaochuan Zhou "International Monetary and Financial Committee: Statement by Dr. Zhou Xiaochuan Governor of the People's Bank of China at the Twenty-First Meeting of the international Monetary and Financial Committee" (Statement presented at the twenty-first meeting of the International Monetary and Financial Committee, Washington D.C., April 24, 2010), p.3, <http://www.imf.org/External/spring/2010/imfc/statement/eng/chn.pdf> (accessed 25.04.2015).

¹⁵¹ *Ibid.* p.4.

¹⁵² *Ibid.* p.4.

¹⁵³ "IMF Signs Agreements Totaling SDR 5.3 billion with Japan, the Banque de France, the United Kingdom and the People's Bank of China to Support Lending to Low-Income Countries", September 17, 2010, <http://www.imf.org/external/np/sec/pr/2010/pr10340.htm>. (accessed 25.04.2015).

¹⁵⁴ Xiaochuan Zhou "Statement by the Hon. Zhou Xiaochuan, Governor of the Fund for the People's Republic of China", Annual Meetings International Monetary Fund and World Bank Group, Washington D.C., (October 8, 2010), p.2, <http://www.imf.org/external/am/2010/speeches/pr47e.pdf> (accessed 25.04.2015).

changes in the global economy. This is exactly what China claims as well and what the IMF has posed upon itself to do. The need for a more diversified international system is stressed with greater voice for developing and emerging countries. Heads of international institutions should be chosen through an open, transparent and merit-based system. This is the word choice China used in its speeches at the IMF. They want to serve emerging economies just like China said to do and underlined their support for a just multi-polar world.¹⁵⁵ In the joint statement of 2010 most of the points were re-highlighted and an appeal to the IMF formulated to address its legitimacy deficits or it might become obsolete. They expect the reform to be completed by the G20 summit in 2010 and that the staff should better reflect the diversity of membership. Agreed was further cooperation among their countries e.g. a meeting of their Development Banks.¹⁵⁶ At this stage already there might have been the idea to set up a joint Development Bank. The BRICS linked the willingness to provide more funds to the IMF to help countries recover with changes in voting shares. This could be perceived as blackmail.¹⁵⁷

The US government was critical of the reforms of 2010 because it surpassed what had been agreed on earlier in 2009.¹⁵⁸ US Congress had voted for making available more funding for IMF reforms mainly to tackle the global financial crisis.¹⁵⁹ Still the government admitted that the IMF will become stronger and more credible due to this reform.¹⁶⁰ The year 2010 marked the first divergence of opinion between U.S. Congress and the President.

In April 2009, “*The Economist*” noted that if the IMF is to succeed, it needs to reform. It even suggests cutting the majorities for decisions and ending the American veto.¹⁶¹ The media supports reforms.

Reforms of 2008 were agreed on and backed by US Congress and the President. Beginning in 2008 and in the years following the financial crisis China’s relationship with the IMF intensified and it took over more responsibility. Apart from that it also helped to solve immediate problems. Using the bargaining power of the BRICs China

¹⁵⁵“Joint Statement of the BRIC Countries’ Leaders“, Yekateringburg Russia, June 16, 2009, <http://www.brics.utoronto.ca/docs/090616-leaders.html> (accessed 26.04.2015).

¹⁵⁶“2nd BRIC Summit of Heads of State and Government: Joint Statement“, Brazil, April 15, 2010, <http://www.brics.utoronto.ca/docs/100415-leaders.html> (accessed 26.04.2015).

¹⁵⁷ Glosny, Ibid. p.122.

¹⁵⁸ The White House, Office of the Press Secretary“G-20: Fact Sheet on IMF Reform“, (November 12, 2010), <https://www.whitehouse.gov/the-press-office/2010/11/12/g-20-fact-sheet-imf-reform> (accessed 26.04.2015).

¹⁵⁹ “Global Economic Crisis: U.S. Congress Vote Marks Big Step For IMF Reform Funding“, IMF Survey Online, (June 18, 2009), <http://www.imf.org/external/pubs/ft/survey/so/2009/NEW061809A.htm> (accessed 27.04.2015).

¹⁶⁰ “G-20: Fact Sheet on IMF Reform“, <https://www.whitehouse.gov/the-press-office/2010/11/12/g-20-fact-sheet-imf-reform> (accessed 27.04.2015).

¹⁶¹“The G-20 and the IMF: Banking on the Fund“, *The Economist*, (April 8, 2009), <http://www.economist.com/node/13446763> (accessed 27.04.2015).

pushed for further reforms which were agreed on in the IMF in 2010 but are still not in effect. Beginning with the reforms of 2010 a dispute between the President and the U.S. Congress emerged. As it turns out the US is using its veto power.

Post-2010 and the Establishment of the New Development Bank

The U.S. veto power continued to determine debates after 2010. Marked by growing impatience on the part of the international community the legitimacy crisis aggravated steadily. If the Quota reforms of 2010 reached the politically possible, there would be no chance for the IMF to restore its legitimacy. Other measures were taken to increase the IMF's financial resources. In 2011 the NAB enlargement was activated giving the BRICS a veto power with a 16% share compared to supermajority decision making in IMF 85%. The NAB provides additional loans for countries in need of capital but they do not change decision-making power in the IMF. The NAB thus represents a compromise for more capital but doesn't solve the problem of underrepresentation developing countries in the IMF. Ironically it doesn't solve the liquidity problem either. The need for capital is huge. In 2014, the NDB and the Asian Infrastructure and Investment Bank (AIIB) were established. The AIIB is a China-led bank and should support infrastructure projects in Asian countries specifically.

China urged all members to ratify the 2010 reforms, which are a breakthrough and to continue with reforms e.g. the merit-based selection of management.¹⁶² The BRICS further point out that the nation-based selection undermines the Fund's legitimacy and that emerging countries need to be sufficiently represented in the Fund's management.¹⁶³ The new Managing Director should be committed to the reforms and be able to adapt the institution to new realities.¹⁶⁴ China added the IMF should promote

¹⁶² Gang, Yi "Statement at the 2011 IMFC Spring Meetings Mr. Yi Gang Deputy Governor of the People's Bank of China" Statement presented at the twenty-third of the International Monetary and Financial Committee, Washington D.C. (April 16, 2011), p.4, <http://www.imf.org/External/spring/2011/imfc/statement/eng/chn.pdf> (accessed 25.04.2015).

¹⁶³ Aleksei Mozhin (Russia), Arvind Virmani (India), Jianxiong He (China), Moeketsi Majoro (South Africa), Paulo Nogueira Batista Jr., (Brazil), "Statement by the IMF Executive Directors Representing Brazil, Russia, India, China and South Africa on the Selection Process for Appointing an IMF Managing Director", (May 24, 2011), <http://www.imf.org/external/np/sec/pr/2011/pr11195.htm> (accessed 25.04.2015).

¹⁶⁴ Ibid.

further reforms, put the ones of 2010 into effect and to make the quota formula simpler and more transparent.¹⁶⁵

In 2011, China proposed steadily to push forward reform of the international monetary system, to expand the range of use of drawing rights, to restructure the composition of SDRs, and to establish a stable currency value.¹⁶⁶ This is exactly what China did in the following years. Again in 2012 China urged the ratification of the 2010 reforms by the agreed upon deadline and to complete the review of the quota formula by January 2013.¹⁶⁷ In April 2013 China again urged members to ratify the 2010 reforms not only to ensure legitimacy, effectiveness and credibility of the Fund but also to maintain global financial stability as the increase in quota is important.¹⁶⁸ The quota formula reform should be completed by January 2014.¹⁶⁹ A new formula should be agreed upon which better reflects each country's current position in the economy and actual and calculated quotas shouldn't be substantially different.¹⁷⁰ By the end of 2013 ratifying the 2010 reform had become "more urgent than ever".¹⁷¹ By April 2014 China "deeply regrets" that the 15th General Review of Quotas had not been completed by January 2014 and the 2010 reforms were still not ratified.¹⁷²

"We remain committed to supporting the nature of the IMF as a quota-based institution and its role as an important contributor to the global financial safety net. We support the IMFC Chair's call on the United States to approve both the 14th Review and the Board Reform Amendment as early as possible. We reaffirm our support for the completion of the 15th General Review of

¹⁶⁵ Xuren Xie "Statement by the Hon. Xie Xuren, Governor of the Bank for the People's Republic of China", statement presented at the 2011 Annual Meetings of the World Bank Group and the International Monetary Fund, Washington D.C., (September 23, 2011), p.2, <http://www.imf.org/external/am/2011/speeches/pr14e.pdf> (accessed 25.04.2015).

¹⁶⁶ Jintao Hu "Hu Jintao's Speech leaders of the Group of the twenty-sixth summit" G-20 Summit, Cannes France, (November 3, 2011), http://translate.google.de/translate?hl=en&sl=zh-CN&u=http://news.xinhuanet.com/world/2011-11/04/c_122235131.htm&prev=search (accessed 26.04.2015).

¹⁶⁷ Gang Yi "Statement by the Hon. Yi Gang, Alternate Governor of the Fund for the People's Republic of China", statement presented at the 2012 Annual Meetings International Monetary Fund and World Bank Group, Tokyo, (October 12, 2012), p.3, <http://www.imf.org/external/am/2012/speeches/pr19e.pdf> (accessed 25.04.2015).

¹⁶⁸ Xiaochuan Zhou "Statement by the Honorable. Zhou Xiaochuan Governor of the IMF for China at the Twenty-Seventh Meeting of the International Monetary and Financial Committee", Washington D.C, (April 20, 2013), p.4 <http://www.imf.org/External/spring/2013/imfc/statement/eng/chn.pdf> (accessed 26.04.2015).

¹⁶⁹ Ibid. p.4 and Guangyao, Zhou "Statement by Vice Minister Zhu Guangyao to the Plenary Session of the 2013 Annual Meetings of the World Bank Group and International Monetary Fund", Washington D.C., (October 11, 2013), p.3, <http://www.imf.org/external/am/2013/speeches/pr20e.pdf> (accessed 26.04.2015).

¹⁷⁰ Xiaochuan Zhou "International Monetary and Financial Committee", (2013) <http://www.imf.org/External/spring/2013/imfc/statement/eng/chn.pdf>, p.4 and Guangyao, Zhou "Statement by Vice Minister Zhu Guangyao to the Plenary Session" (2013), p.3, <http://www.imf.org/external/am/2013/speeches/pr20e.pdf> (accessed 26.04.2015).

¹⁷¹ Gang Yi "Statement by Deputy Governor Yi Gang to the Twenty-Eighth Meeting of the International Monetary and Financial Committee", Washington D.C., (October 12, 2013), p.3 <http://www.imf.org/External/AM/2013/imfc/statement/eng/chn.pdf> (accessed 26.04.2015).

¹⁷² Gang Yi "Statement by Deputy Governor Yi Gang to the Twenty-Ninth Meeting of the International Monetary and Financial Committee", Washington D.C., (April 12, 2014), p.3 <http://www.imf.org/External/spring/2014/imfc/statement/eng/chn.pdf> (accessed 26.04.2015).

Quota by January 2015, as soon as the 2010 reforms are implemented.”¹⁷³

Only some months later this statement is emphasized again. In 2014 Yi Gang, alternative Governor of the People’s Republic of China said that IMF’s governance structure needs to be representative to be able to cope with the challenges ahead.¹⁷⁴ He urged the US to take the next steps so that further reforms can be implemented. In addition, if the US doesn’t ratify the reforms by year-end (2014), the IMF is asked to act.¹⁷⁵ He outlines additional reforms and improvements that have to be implemented and made.¹⁷⁶ His words demonstrate Chinese interests in a functioning IMF of which they are a part and their disappointment by US behavior. The speech addresses the US in particular and with unprecedented urgency.

Regarding the BRICS’ reports and statements similarities can be observed. The tone is similar too and became increasingly serious. Important appeals are repeated in every document mentioned. The joint statement of the BRICS in 2011 called for an advancement of IMF reforms. Developing countries need to be adequately represented. In addition, discussions about the SDR currency basket were welcomed and a BRICS cooperation plan established.¹⁷⁷ The appeals again equal those of China and are yet optimistic about the implementation of the 2010 reforms. In 2012, the BRICS expressed concerns as to the slow pace of reforms. The head of the IMF should be elected through an open, merit-based system. The establishment of a New Development Bank was considered and an action plan created for experts to meet to discuss this NDB.¹⁷⁸ The NDB may thus be an immediate reaction to slow reforms and to advance the BRICS’ interests which the IMF doesn’t do. In 2013, the BRICS agreed to establish the NDB again expressed concerns about the stalling of IMF reforms but expressed hopes to complete the next quota review by January 2014.¹⁷⁹ The group became less optimistic about reforms but didn’t give up on changes. The Fortaleza Declaration picked on the

¹⁷³ Ibid.

¹⁷⁴ Gang Yi “Statement by the Honorable Yi Gang Alternate Governor of the International Monetary Fund for the People’s Republic of China”, Statement delivered at the Annual Meetings International Monetary Fund and World Bank Group, Washington D.C., (October 10, 2014) p. , <http://www.imf.org/external/am/2014/speeches/pr35e.pdf> (accessed 24.04.2015).

¹⁷⁵ Ibid.

¹⁷⁶ Ibid.

¹⁷⁷ “Sanya Declaration: Sanya, Hainan, China, April 14, 2011”, April 14, 2011, <http://www.brics.utoronto.ca/docs/110414-leaders.html> (accessed 24.04.2015).

¹⁷⁸ “Fourth BRICS Summit: Delhi Declaration: New Delhi, March 29, 2012”, March 29, 2012, <http://www.brics.utoronto.ca/docs/120329-delhi-declaration.html> (accessed 24.04.2015).

¹⁷⁹ “Media Note on the Informal Meeting of BRICS Leaders Ahead of the G20 Summit in St. Petersburg: September 5, 2013, St. Petersburg, Russia”, September 5, 2013, <http://www.brics.utoronto.ca/docs/130905-note.html> (accessed 24.04.2015)

signs of the loss of legitimacy and effectiveness of international organizations. In that respect they declared themselves to be an important force. Still, they expressed their will to work within the international economic system although remaining to be disappointed and seriously concerned about the non-implementation of the 2010 IMF reforms. The IMF should develop options to move ahead with the IMF reforms. In case the reforms are not implemented by the end of 2010 the membership should reach a final agreement on a new formula with the 15th General Review not exceeding January 2015.¹⁸⁰ Even though the disappointment is high, the BRICS want to implement changes from inside the system.

The BRICS are convinced that the establishment of the New Development Bank is necessary in order to provide resources for developing and emerging economies.¹⁸¹ Discussions about the Bank began in 2011.¹⁸² In fact, shortly after the IMF agreed on new reforms in 2010 perhaps prior to that, it was obvious that it wouldn't be ratified by the necessary number of countries. If this dominated BRICS' actions, the only solution was to create institutions of their own. Without reforms, the legitimacy of the IMF, as well as other institutions, is in question, because they don't sufficiently represent the BRICS' weight.¹⁸³ Demanding the very same changes for years might reinforce the perception that they are not able or it is not possible under the current structures to gain fair voting shares in the IMF. Emerging economies hope that the NDB will challenge the existing institutions in fields such as emergency assistance.¹⁸⁴ Those functions and financial needs mentioned remain unfulfilled by the IMF due to the lack of capital. Furthermore it has been suggested that the NDB, when developed, could in a few decades dwarf the World Bank loans.¹⁸⁵ This would be a significant step towards replacing old institutions but depends on future developments. Chinese dominance an economy bigger than those of all other BRICS members combined, and disputes among

¹⁸⁰ "The 6th BRICS Summit: Fortaleza Declaration: July 15, 2014, Fortaleza, Brazil", July 15, 2014, <http://www.brics.utoronto.ca/docs/140715-leaders.html> (accessed 24.04.2015).

¹⁸¹ "Agreement on the New Development Bank" Fortaleza, Brazil, (July 15, 2014), <http://www.brics.utoronto.ca/docs/140715-bank.html> (accessed 26.04.2015).

¹⁸² Joseph Stiglitz interviewed by Amy Goodman "Nobel Economist Joseph Stiglitz Hails New BRICS Bank Challenging U.S.-Dominated World Bank and IMF" *Democracy Now*, (July 17, 2014), http://www.democracynow.org/2014/7/17/nobel_economist_joseph_stiglitz_hails_new (accessed 18.04.2015).

¹⁸³ "2nd BRIC Summit of Heads of State and Government: Joint Statement", Brasilia, (April 15, 2010), <http://www.brics.utoronto.ca/docs/100415-leaders.html>, "Fourth BRICS Summit: Delhi Declaration", New Delhi, (March 29, 2012), <http://www.brics.utoronto.ca/docs/120329-delhi-declaration.html>, "Media Note on the Informal Meeting of BRICS Leaders Ahead of the G20 Summit in St. Petersburg", St. Petersburg, (September 5, 2013), <http://www.brics.utoronto.ca/docs/130905-note.html> (accessed 18.04.2015).

¹⁸⁴ Raj M. Desai and James Raymond Vreeland "What the new bank of BRICS is all about", *Washington Post*, (July 17, 2014), <http://www.washingtonpost.com/blogs/monkey-cage/wp/2014/07/17/what-the-new-bank-of-brics-is-all-about/> (accessed 20.04.2015).

¹⁸⁵ *Ibid*.

the BRICS make coordination in the NDB unlikely.¹⁸⁶ Since 1952, Brazil gained experience with the help of its own Development Bank (BNDES) which can contribute to the New Development Bank. The New Development Bank shows that the developing countries, despite their differences, can work together, often more successfully than some developed countries.¹⁸⁷ This may alarm the US and its Western Allies. The BRICS and developing countries start to provide capital according to their needs.

The Development Bank of Latin America, CAF, funds more infrastructure projects in Latin America than the World Bank and American Development Bank combined.¹⁸⁸ The Chiang Mai Initiative was unable to implement a system of monitoring and surveillance which had to be done by the IMF so no Asian country has used the credit.¹⁸⁹ The consequence might have been the establishment of the AIIB. Chinese scholars on the other hand praise the deepening cooperation and highlight the fact that the BRICS are taking increasingly the form of a political entity.¹⁹⁰ The NDB has to be judged accordingly. China still feels the IMF is unfair and regards the BRICS as one of the most important multilateral organizations.¹⁹¹ The Chinese President emphasized the great benefits for all emerging and developing countries.¹⁹² China's goal is a fairer world, not challenging any specific power.¹⁹³ The BRICS countries believe that the NDB, despite Western concerns, will play a complementary role.¹⁹⁴ Mutual benefits as well as the need for a strong partnership between the NDB and the World Bank are stressed.¹⁹⁵

The lack of commonality might be an economic asset since cooperation benefits all members reducing competitive thinking.¹⁹⁶ Advancing national interests might be the primary goal of the BRICS.¹⁹⁷ The BRICS failed to agree on a common candidate for the IMF in 2011-2012.¹⁹⁸ This example shows that sometimes disagreements within the

¹⁸⁶ Ibid.

¹⁸⁷ Joseph Stiglitz interviewed by Amy Goodman, Ibid.

¹⁸⁸ http://www.democracynow.org/2014/7/17/nobel_economist_joseph_stiglitz_hails_new.

¹⁸⁹ Raj M. Desai and James Raymond Vreeland, Ibid. <http://www.washingtonpost.com/blogs/monkey-cage/wp/2014/07/17/what-the-new-bank-of-brics-is-all-about/>

¹⁹⁰ Ibid.

¹⁹¹ Niu, Haibin "A Chinese Perspective on the BRICS in 2015", *Council of Councils*, (February 6, 2015), http://www.cfr.org/councilofcouncils/global_memos/p36088 (accessed 27.04.2015).

¹⁹² Ibid.

¹⁹³ Amy Goodman interviews Joseph Stiglitz, Ibid.

¹⁹⁴ http://www.democracynow.org/2014/7/17/nobel_economist_joseph_stiglitz_hails_new.

¹⁹⁵ Haibin Niu, Ibid. http://www.cfr.org/councilofcouncils/global_memos/p36088.

¹⁹⁶ Ibid.

¹⁹⁷ Ibid.

¹⁹⁸ Käkönen, Ibid. p.91.

¹⁹⁹ Ibid. p.93.

²⁰⁰ Zhenbo, Hou, Ibid. p.360.

group can lead to setbacks because not enough leverage can be generated by only a part of the group.

After the announcement of the New Development Bank the thinking in the BRICS shifted. The BRICS now will challenge US and Western supremacy and the institutions established by them.¹⁹⁹ Unlike the World Bank the NDB would not challenge countries' sovereignty their loan requirements are fewer.²⁰⁰ Oliver Stuenkel explains that the NDB is a reaction to the stagnating economic situation of the BRICS and the bank is an effort to survive.²⁰¹ *The Economist* does not judge the NDB as a threat to the current international system, at least not at the present. The NDB joins a number of already existing development banks like the BNDES. But it may have more money at its disposal if Brazil and India were as skeptical about Chinese intentions and power as they are about the West's. The differences might result in disputes as to whom to lend money.²⁰² The objective of the Bank according to the Brazilian Minister of Development, foreign industry and trade will not rival any existing institution but strengthen cooperation among the BRICS and offer new financing possibilities.²⁰³ Looking at its objectives and financial scope this statement is true. Xi Jinping says that the NDB will bring more democracy and balance to the economy and international relationships.²⁰⁴ Democracy here could mean stability of the international financial system or fairer chances for developing countries. It certainly does not refer to the meaning of democracy a Western person would understand it.

The goals include a more balanced and integrated global capitalism, an example was China's proposal of a new world currency to replace the dollar or the Renminbi during the 2008 collapse.²⁰⁵ This idea might be promoted, again if China benefits from it. If it actually wanted a more integrated and balanced system why manipulate its own currency?

¹⁹⁹William I. Robinson "The transnational state and the BRICS: a global capitalism perspective", *Third World Quarterly* Vol.36, No.1, (January 2015), pp.1,2,

²⁰⁰ Andrew Walker "Brics: Building a new development bank", *BBC*, (July 11, 2014), <http://www.bbc.com/news/business-28255127> (accessed 18.04.2015).

²⁰¹ EW News Desk Team "BRICS Close To Creating Common Development Bank: Reports", *Economy Watch*, (March 25, 2013), <http://www.economywatch.com/in-the-news/brics-close-to-creating-common-development-bank-reports.25-03.html> (accessed 18.04.2015).

²⁰² "The BRICS Bank: An acronym with capital: Setting up rivals to the IMF and World Bank is easier than running them", *The Economist*, Sao Paulo, July 19, 2014, <http://www.economist.com/news/finance-and-economics/21607851-setting-up-rivals-imf-and-world-bank-easier-running-them-acronym> (accessed 18.04.2015).

²⁰³"Brics Bank will give the World a new financial tool: Brazilian Minister", *Times of India*, Sao Paolo, (March 23, 2013), <http://timesofindia.indiatimes.com/business/international-business/Brics-bank-will-give-the-world-a-new-financing-tool-Brazilian-minister/articleshow/19136703.cms?> (accessed 18.04.2015).

²⁰⁴ EW News Desk Team "BRICS Close To Creating Common Development Bank: Reports", *Economy Watch*, (March 25, 2013), <http://www.economywatch.com/in-the-news/brics-close-to-creating-common-development-bank-reports.25-03.html> (accessed 18.04.2015).

²⁰⁵ Robinson, *Ibid.* p.6.

The U.S. Congress refused to ratify the proposal which would increase China's voting share in the IMF from 3.8 in 2008 to 6.07 in 2011. Without the US' cooperation China cannot achieve its goals. In addition, it highlights the extraordinary position of the US within the IMF. Chinese leadership might become suspicious about the West's true intentions for reforms.²⁰⁶

In 2013, Obama tried to get authorization from Congress to implement the reforms.²⁰⁷ Concerns of Congressmen about US credibility were raised if delays continued.²⁰⁸ Even though little additional money would be spent, more US taxpayer money would be available for loans but the US would have no veto to decide who gets the money.²⁰⁹ This is because quotas are increased by 100% and the contributions increase as well. The US is the largest contributor to the NAB and can block loans if they wish to.²¹⁰ The Obama Administration included the IMF reforms of 2010 in the budget requests FY2014 and FY2015.²¹¹ Congress published an informational paper on the impacts on the U.S. of the IMF reforms of 2010 in March 2014. This document confirms that emerging economies are insufficiently reflected in their representation in the IMF and the size of IMF's resources is too low. It also stressed that US veto power would not be touched by the changes in the IMF. Congressional approval of the changes in the IMF is necessary to change the IMF quota system. The needed funds were not requested by the Administration. Considering that the changes were agreed on in 2010 and neither Congress nor the President has taken actions needed for enactment reveals a considerable road block of the US. As possible consequences for the US are not negative, financial commitment would not increase,²¹² and representation would not be affected significantly.²¹³ This reaction to agreed changes in the IMF shows that the US chooses to play the veto card. In addition, it reflects the considerable amount of power of Congress on the implementation of decisions in international bodies. Even though the

²⁰⁶ Zhenbo, Hou, Ibid. p.359.

²⁰⁷ David Lawder and Lesley Wroughton "Obama seeks authority for IMF voting reforms", *Reuters*, Washington, (March 6, 2013), <http://www.reuters.com/article/2013/03/06/us-imf-usa-idUSBRE92501M20130306> (accessed 24.04.2015).

²⁰⁸ Ibid.

²⁰⁹ James M. Roberts "Congress Should Not Lamely Duck a Fight over the IMF Reform Package", *The Daily Signal*, (December 1, 2014), <http://dailysignal.com/2014/12/01/congress-not-lamely-duck-fight-imf-reform-package/> (accessed 24.04.2015).

²¹⁰ James M. Roberts "Congress Should Block the Morally Hazardous IMF "Reform" Package", *The Heritage Foundation*, (January 14, 2014), <http://www.heritage.org/research/reports/2014/01/us-congress-should-block-the-hazardous-imf-reform-package> (accessed 24.04.2015).

²¹¹ Rebecca M. Nelson and Martin A. Weiss "IMF Reforms: Issues for Congress", Congressional Research Service, (April 9, 2015), p. Summary, <https://www.fas.org/sgp/crs/misc/R42844.pdf> (accessed 02.05.2015).

²¹² Since the voting power would fall which is tied to the financial commitment, US payments would actually drop.

²¹³ Rebecca M. Nelson and Martin A. Weiss "IMF Reforms: Issues for Congress", Congressional Research Service, (March 11, 2014), p. Summary <https://www.hsdl.org/?search&exact=Nelson%2C+Rebecca+M.&searchfield=creator&collection=limited&submitted=Search&release=0&creator=Weiss%2C+Martin+A.&fct&page=1> (accessed 02.05.2015).

US veto power wouldn't be lost, four BRICS members would be among the ten largest shareholders. This might impact decisions for which less approval is needed so the BRICS might be able make decisions with the help of only a few other countries against the interests of the US and/ or Europe. The main reason for the delay is domestic politics in the US.²¹⁴ This argument seems valid since other countries which are also affected by the quota change have ratified it. The behavior of the Administration is all the more confusing since they once pressured the Europeans to find a solution or else allow 20 member states go bankrupt.²¹⁵

Scholars such as Lesage agree that the reform of 2010 corresponds to US interests.²¹⁶ If he is right, Chinese and U.S. interests would be similar or actually the same in this case. They might share more than currently visible. This would make the attitude of Congress even less understandable. The only attempt to pass the bill was by using it as an Amendment to an unrelated bill about Ukraine but the Amendment was withdrawn again and the Republicans blamed for that.²¹⁷ Ms Lagarde, the Managing Director of the IMF said that she is disappointed that US Congress didn't take the necessary steps.²¹⁸ Nobel-Prize winning economist Joseph Stiglitz points out:

*"(...) It reflects a fundamental change in global economic and political power, that one of the ideas behind this is that the BRICS countries today are richer than the advanced countries were when the World Bank and the IMF were founded. We're in a different world."*²¹⁹

The media is on China's side. *The Washington Post* highlights how China and other developing countries have waited impatiently in recent years for the US to approve the IMF reforms of 2010. China has contributed more capital to the Fund than necessary for years in order to gain more decision-making power. Edwin M. Truman, senior fellow at the Peterson Institute for International Economics, says that the world was patient only until realizing that the Republican Congress will continue to block the reforms. Obama is not pushing hard enough for reforms and the political climate is acid. The US is

²¹⁴ Ferdinand and Jue Wang, Ibid. p.898.

²¹⁵ Lesage et al., Ibid. p. 560.

²¹⁶ Ibid. p.572.

²¹⁷ Raj M. Desai and James Raymond Vreeland "What the new bank of BRICS is all about", <http://www.washingtonpost.com/blogs/monkey-cage/wp/2014/07/17/what-the-new-bank-of-brics-is-all-about/>

²¹⁸ "Statement by IMF Managing Director Christine Lagarde on IMF Quota and Governance Reforms", (March 25, 2014), <http://www.imf.org/external/np/sec/pr/2014/pr14127.htm> (accessed 30.04.2015).

²¹⁹ Joseph Stiglitz interviewed by Amy Goodman, Ibid.

http://www.democracynow.org/2014/7/17/nobel_economist_joseph_stiglitz_hails_new.

losing reputation.²²⁰ The article published four month later explains the establishment of the NDB based on the aforementioned criticism of the institutions. The BRICS are tired of waiting. Even though Ms Lagarde called for patience, understanding on the side of the authors is promoted for the decision to act now.²²¹ The unfair distribution of quota is also mentioned in *The Financial Times* which also emphasizes that the NDB is too small to make significant changes.²²²

The Telegraph highlights the threat the NDB poses to US dollar supremacy. In combination with swap deals and Russian-Chinese contracts whose yuan-rouble basis remains unclear, US dollar dominance will be threatened.²²³

Jim O'Neill said in 2013 that he sees even more potential for the BRICS and they should start to establish institutions in order to become more than a non-binding group.²²⁴ The Russian media exaggerated on the significance of the NDB. They say the NDB would be the new IMF and that the BRICS are establishing a new system replacing the old institutions such as the World Bank.²²⁵

Others say the BRICS are stuck within the system and don't have the ability yet to change the system.²²⁶

The BRICS have huge capital resources which are needed in the developing world. China wants to invest its resources in different investments than US treasury bills which are losing value. According to Stiglitz the developing countries in need of several trillions of dollars of which the current institutions can only provide 2-4%.²²⁷ The NDB could fill the gap the IMF left and adapt to new circumstances. The IMF thus might be forced to reform. The tone and words used by the BRICS are similar to those used by China.

²²⁰Patrice Hill "Russia, China leading efforts to bypass U.S. as IMF reforms stall on Capitol Hill", *Washington Post*, (April 6, 2014), <http://www.washingtonpost.com/news/2014/apr/6/russia-china-leading-efforts-to-bypass-us-as-imf-r/?page=all>, (accessed 10.05.2015).

²²¹Patrice Hill "Emerging Economic Powers to challenge U.S., IMF with own aid bank", *Washington Times*, (August 5, 2014), <http://www.washingtontimes.com/news/2014/aug/5/emerging-economic-powers-to-challenge-us-imf-with-/?page=all> (accessed 30.04.2015).

²²²David Pilling "The Brics bank is a glimpse of the future", *Financial Times*, (July 30, 2014), <http://www.ft.com/intl/cms/s/0/f7b876a0-170e-11e4-b0d7-00144feabdc0.html#axzz3aUioLGOZ> (accessed 29.04.2015).

²²³Liam Halligan "The dollar's 70-year dominance is coming to an end", *Telegraph*, (July 19, 2014), <http://www.telegraph.co.uk/finance/comment/liamhalligan/10978178/The-dollars-70-year-dominance-is-coming-to-an-end.html> (accessed 27.04.2015).

²²⁴Jim O'Neill interviewed by Erich Follath „Goldman-Sachs-Banker O'Neill: Ich bin ein Außenseiter in meinem Beruf“ (I am an outsider), *Spiegel*, (March 18, 2013), <http://www.spiegel.de/wirtschaft/goldman-sachs-banker-jim-o-neill-ueber-die-zukunft-der-brics-a-888397.html> (accessed 28.04.2015).

²²⁵Olga Samofalova "BRICS countries to set up their own IMF", *Russia Beyond the Headlines*, (April 14, 2014), http://rbth.co.uk/business/2014/04/14/brics_countries_to_set_up_their_own_imf_35891.html (accessed 28.04.2015).

²²⁶Michael Schumann "Dominated World Economy, but They're Stuck With It", *Time*, (July 21, 2014), <http://time.com/3010636/brics-us-dollar-new-development-bank-summit-contingent-reserve-arrangement/>, (accessed 28.04. 2015).

²²⁷Ibid.

Most recent developments 2015

In order to be able to put the NDB and China's behavior into context, the analysis has to include the most recent developments of 2015. These developments show how quickly changes may occur.

March: Founded by China in October 2014 the "Asian Infrastructure and Investment Bank" (AIIB) consists of 27 founding members. In March 2015, the UK was the first Western power to join the Bank followed by France and Germany. These developments received a lot of attention in the media because they pose another challenge to the US-dominated system. The AIIB is a Chinese founded bank of which the US is not (yet) a member. The Chinese Minister of Finance Lou Jiwei explained the AIIB would not compete against the IMF but complement it.²²⁸ Welcoming the establishment of the AIIB Christine Lagarde illustrated that the IMF's portfolio doesn't include the financing of infrastructure projects and that neither institution would compete with the other.²²⁹ However, the AIIB will be the first international financial institution with Western member countries under the leadership of China. In contrast to the NDB, the AIIB shows how strong Chinese pull factors and leadership have become. In addition the establishment of the AIIB might signal that China doesn't place too much importance on the NDB.

In addition, domestic pressure on the US Congress to authorize reforms increases. According to US Treasury Secretary Jack Lew, denying approval to the reforms of 2010 was dangerous because the US lacks leverage on the AIIB.²³⁰ As long as the IMF 2010 reforms are not approved, the legitimacy problem will become increasingly destructive to the IMF's operations and credibility diluting the institution from within. Its members feel the need to join the AIIB to deal with new challenges. Even though IMF operations don't collide with that of the AIIB, the AIIB's success points at the deficiencies of the current system. If those deficiencies become larger in the future because the legitimacy problem remains, they might be taken up by the AIIB or other international institutions as well. The IMF is at risk of becoming redundant.

²²⁸ Mark Baker "New Chinese Bank Becomes Major Headache for U.S." *Radio Free Europe*, (April 20, 2015), <http://www.rferl.org/content/china-development-bank-major-us-headache/26926375.html> (accessed 18.04.2015).

²²⁹ Ibid.

²³⁰ Anna Yukhananov "U.S. Treasury Secretary says 'dangerous' not to pass IMF reforms", *The Daily Mail*, Washington, (March 18 2015), <http://www.dailymail.co.uk/wires/reuters/article-3001404/U-S-Treasury-secretary-says-dangerous-not-pass-IMF-reforms.html> (accessed 23.04.2015).

April: The Chinese economy is growing slowly in 2015.²³¹ China grows at a pace which might be insufficient to pressure the US for reforms. But the accumulated capital and established networks will ensure investments and further bargaining.

The Chinese Central Bank Governor, Zhou Xiaochuan, announced plans for currency reforms in order to add the Yuan to the IMF currency basket, the Special Drawing Rights basket.²³² US officials objected immediately saying that the Yuan is not yet ready to join.²³³ It is however unclear how to decide this question. Any change in SDR would come into effect in January 2016 but it is yet unclear whether a 70% or 85% supermajority vote will be needed.²³⁴ If this inclusion has to be decided by an 85% majority the US can use its veto power to stop China from pursuing this goal. Those attempts show the way in which China tries to undermine US supremacy while trying at the same time to integrate into the international financial system. Recognizing the importance of the IMF China continues to invest in it and to support it. Depending on the decision of how to decide the issue one can easily conclude about the amount and way of U.S. dominance in the Fund. The decision of procedure might as well already decide whether China's currency will be included in the basket or not.

Voices became harsh. In April 2015, China accused the US of "undermining" the IMF's legitimacy by not ratifying the reforms of 2010. "(...) any interim step should represent a meaningful advance to the goals of the 2010 reform without substituting for the reform itself." The review of the quota formula and the 15th General Review of Quotas should be completed by the set deadline December 15th 2015.²³⁵ Becoming impatient, China exerts pressure on the US.

In April 2015, Congress published another paper on IMF reforms. The Obama Administration included IMF reforms 2010 in its budget request of 2016 again.²³⁶ In the "Adequacy of IMF Resources" a more detailed account of the lack of financial

²³¹ Kevin Yao and Koh Gui Qing "China grows slowest in six years, more stimulus expected soon", *Reuters Beijing*, (April 15, 2015), <http://www.reuters.com/article/2015/04/15/us-china-economy-gdp-idUSKBN0N52E220150415> (accessed 26.04.2015).

²³² Jason Lange et al. "China says to accelerate reforms to support Yuan in IMF currency basket", *Reuters*, Washington, (April 18, 2015), <http://www.reuters.com/article/2015/04/18/us-china-yuan-idUSKBN0N906020150418> (accessed 23.04.2015).

²³³ Ibid.

²³⁴ "IMF's Lagarde says inclusion of China's yuan in SDR basket question of when", *Reuters Shanghai*, (March 20, 2015), <http://uk.reuters.com/article/2015/03/20/uk-china-imf-idUKKBN0MG0YJ20150320> (accessed 26.04.2015).

²³⁵ Xiaochuan Zhou "Statement by Honorable Mr. Zhou Xiaochuan Governor of the IMF for China to the Thirty-First Meeting of the International Monetary and Financial Committee", Washington D.C., (April 18, 2015), p.3, <http://www.imf.org/External/spring/2015/imfc/statement/eng/chn.pdf> (accessed 26.04.2015).

²³⁶ Rebecca M. Nelson and Martin A. Weiss "IMF Reforms: Issues for Congress", *Congressional Research Service*, (April 9, 2015), p. Summary, <https://www.fas.org/sgp/crs/misc/R42844.pdf> (accessed 02.05.2015).

resources in the IMF is given compared to 2014.²³⁷ The intention may be to point at current deficiencies and thus better explain the legitimacy problem.

4. Conclusion

China is an integral part of the international community and acts within the international system. By providing significant support to the IMF to fulfill its role, China accepted more responsibilities in the IMF. In return, China claimed a higher Quota for itself and other emerging economies. In the early 21st century the rise of China and other emerging countries culminated in important and major IMF reforms. These reforms should ensure the Fund's legitimacy.

The analysis of the last decade in the IMF therefore shows that China does not challenge the international system. This confirms the hypothesis. It is true that China tries, within the international framework dominated by the US, to gain more power in the IMF. China, still trying to gain more power, uses the legitimacy problem of the Fund.

If the IMF doesn't regain control of its legitimacy problem, Chinese dominated institutions will continue to take more responsibilities and might eventually undermine US supremacy. We might as well head towards a condominium of power even if that state may be reached by China forcing the US on concessions in the medium to long-term. IMF credibility problems have been aggravated in the last decade. Whereas in the beginning, talk was about more decision-making power for low-income countries and the role of the IMF in the world, today the situation has turned into a severe crisis and a legitimacy problem so that future of the entire institution is called into question. The examples of the NDB and AIIB show that China is already "filling the gaps." Furthermore, there are no reasons given by the US why approval of reforms was delayed. Trying to avoid the reforms appears to be pointless. Though the IMF has not yet experienced significant changes in governance and governance structure, it needs to

²³⁷ Rebecca M. Nelson and Martin A. Weiss "IMF Reforms: Issues for Congress", *Congressional Research Service*, (March 11, 2014), pp.2-4, <https://www.hsdl.org/?search&exact=Nelson%2C+Rebecca+M.&searchfield=creator&collection=limited&submitted=Search&release=0&creator=Weiss%2C+Martin+A.&fct&page=1> (accessed 02.05.2015). and Rebecca M. Nelson and Martin A. Weiss "IMF Reforms: Issues for Congress", *Congressional Research Service*, (April 9, 2015), pp.2-4 <https://www.fas.org/sgp/crs/misc/R42844.pdf> (accessed 02.05.2015).

implement the reforms. Supporting the reforms, China wants more decision-making power but is reluctant, at the same time, to take over more responsibility.

Therefore, the goal of the establishment of the Development is to put pressure on the US to ratify the 2010 IMF reforms. While complementing the IMF in parts, the New Development Bank highlights IMF deficiencies. Once a new network is established it is easier for institutions to take more responsibilities. Whether or not the taking over of more responsibilities seems likely will depend on how China is treated in the IMF.

China's behavior within and outside the IMF reflects to a great extent its treatment by major powers and decision-makers. In the last decade major reforms were passed, the only IMF reform which has not yet been approved is the 2010 reforms. China tried to pressure the US constantly in speeches, reminding the international community to ratifying important decisions taken by the community. China realized that its power alone is too small and China thus found a new group, the BRICS. Although, the BRICS met the first time in 2008, it was only two years after the 2010 reforms were still not passed that they agreed to create a joint Development Bank. Then China established the AIIB in 2014. Thus China learnt that when needed by the international system, the West is prepared to make concessions.

We can further conclude that for various reasons i.e., lack of implementing working operating procedures, amount of capital for use...etc. the NDB and AIIB are not yet able to challenge the system. But China is using the niches available to build its own network, beginning with the BRICS Forum, followed by the NDB and AIIB.

Comparing US reaction to the NDB and AIIB demonstrates that the AIIB is a much greater threat to US dominance than the NDB. Another line has been crossed in the last months. The UK which enjoyed a "special friendship" with the US has decided to join the Bank. It seems that Chinese pull factors become more and more attractive so that not only the US but also its allies turn to Asia.

Altogether China is pursuing a two-way strategy. It doesn't challenge the IMF, but contributes financially. China doesn't have the power to change the IMF from within. It supplements the IMF by establishing the NDB and the AIIB. Those banks, may gain opportunities to challenge the IMF in the future. Development Banks like the ones in Brazil or Latin America have existed for decades and no one questioned their role challenging the IMF as is done in the case of the NDB.

The BRICS were said to challenge US supremacy but questions about their ability to work together exist, which is regarded as one reason why they might not be able to

challenge the US. Today we have to reject these early assumptions and say that the □RICS are well aware of their chances and able to use them.

Future research thus has to closely look at the way the IMF and Chinese dominated institutions are heading and how they develop. China is neither a status-quo power nor challenger per se. It is necessary to continue to analyze global economic developments and to consider other global institutions i.e., The World Bank. The conclusions drawn from this analysis suggest that findings within other international organizations might be similar.

Summary of the thesis

The aim of this thesis is to find out whether China today acts within the international order analyzing its behavior in the IMF. China's history reveals the importance of leaders and the oscillations of their worldview and outlook. Each period in time has to be looked at specifically. Upon that the History and power structure of the IMF are explained resulting in the conclusion that for China to gain more decision-making power foremost the increase of Quota is important. Reforms in governance on the other hand are not a regular part of the IMF's history which was rather stable. The same stability shows the IMF-Chinese relations which reveal how well China integrated into the IMF acting more like a developed than a developing country. Whereas in the beginning China had to rely on the IMF for advice today their knowledge about the financial system has increased considerably. The BRICS are presented as a new phenomenon with difficulties due to their differences. Acting as a group, intergovernmental, non-binding decisions are made. Their NDB presents a project that is complementary to existing institutions financing infrastructure projects in developing countries.

The analysis consists of four parts and focus on Chinese claims for reforms, the actual reforms made and reactions of the international community especially the United States. Articles, speeches, interviews and reports reflect that the legitimacy problem of the IMF started in 2005 already. The IMF itself was unaware of its lack of financial resources in case of a crisis. In 2006 reforms were primarily agreed on to strengthen the developing and low-income countries' voices in the Fund. This changed after 2008 when the second packet of reforms was ratified. Soon in 2010 the Executive Board agreed on further reforms which are not passed to this day because the US uses its veto. Officially the US doesn't want to lose control over taxpayers' money which would be shifted from the NAB to the Quota. In the NAB the US has a veto and could thus decide who would get the money and who not.

Generally the analysis shows that China tries to gain more power in the IMF staying within the international system. Yet it establishes new complementary organizations when the process of implementation is slowed down. Those complementary organizations might challenge existing ones in the future which today seems unlikely. The IMF will have to get its legitimacy problem under control or risk to become redundant in the future.

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